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# **INTRODUCTION TO BUSINESS ECONOMICS**

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JAMES STEPHENSON, M.A., M.Com., D.Sc.

*Lecturer in Commerce and Head of the Higher School of Commerce,  
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BY  
J. STEPHENSON

M A M Com D Sc

LECTURER IN COMMERCE AND HEAD OF THE HIGHER SCHOOL OF COMMERCE,  
THE TECHNICAL COLLEGE, CARDIFF



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## PREFACE

AT the present time the subject of Business Economics is attracting a considerable amount of attention in our technical and commercial schools. The cause lies much more deeply than in a mere increase in the appreciation of economic studies. The fact is that the study of economics is inseparably connected with modern civilization and constitutes a fundamental condition of social stability and internal reconstruction. Moreover, vocational education, and especially scientific, commercial and technical training, is gradually finding its true place in the educational edifice. It is now generally recognized that the best teaching results can be obtained only where scientific methods of instruction are combined with the most suitable materials, that is, with those materials which have a direct bearing upon the career for which the student is preparing ; for he can truly assimilate only that which he can bring into line with his own experience.

In commercial education the dominant subject around which all others should be grouped is that of Business Economics. In the centre of the commercial course stands the business undertaking : its structure, its life, its work, its risks, its maladies and convalescences—are all matters on which the student must fasten his attention. They afford him a training in economic affairs and unconsciously initiate him into the intricacies of business management. From the study of the business undertaking there radiate dozens of threads which lead him into the sphere of markets and fairs, banking and exchange, forwarding and insurance, the fixing of prices, the combination of undertakings, and even to the most important economic and social problems.

In this introductory work we shall confine ourselves to the operations involved in the establishment and conduct of a trader's business in general, including such matters as buying, selling, warehousing, dispatching, and methods of payment. In subsequent volumes we shall deal with particular types of business units, such as the wholesale and retail business, the import and export, and the manufacturing concern. The book will have served its purpose if it incites the reader to continue his studies, and with this object

his attention is called to the companion volumes in this series. It is hoped, however, that the matter contained herein will cover the requirements of the First Year Examinations in Commerce of the Union of Lancashire and Cheshire Institutes, the Royal Society of Arts, the London Chamber of Commerce, the National Union of Teachers, the Faculty of Teachers in Commerce ; and also the syllabus in Business Economics of the Northern Counties Technical Examinations Council.

In conclusion, I should like to express my grateful thanks to Mr. T. J. Griffiths, of the Cardiff Post Office, for permission to insert the diagram inset between pages 112 and 113, and also to Mr. Sellick Davies, M.B.E., for revising the manuscript.

J. STEPHENSON.

CARDIFF.

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# INTRODUCTION TO BUSINESS ECONOMICS

## CHAPTER I

### THE ESTABLISHMENT OF A TRADER'S BUSINESS

A PERSON who intends to establish a business must take into consideration many things before he definitely makes up his mind to take a step which will have so much significance for his future ; a " leap in the dark " has been the cause of many a failure.

#### PERSONAL CHARACTERISTICS OF THE TRADER.

A person who may be quite an efficient employee is not always suitable for the post of principal. For such a position a certain amount of *organizing ability* and the necessary *business acumen* are indispensable requisites. Organizing ability reveals itself in the skilful and systematic arrangement of the business—in the shop, in the office, in the stock-room, and also in the drafting of a well-conceived scheme of business. Equipped with the right commercial spirit, a trader is able to recognize every favourable opportunity as it arises, and every slight advantage which presents itself, and these he seizes with courage and decision. He takes careful note of his customers' needs and constantly changing tastes which he does his best to satisfy. For this he requires a knowledge of human nature.

The inborn business spirit, however, is very circumscribed unless it is supported by sufficient experience and by a good general and specialized training. The training received at a day school must be consolidated by attendance at evening classes until it is developed into a thorough knowledge of the particular branch of business. Nothing is calculated more to widen the outlook of an observant person than service in different localities. In this connection a good general education is invaluable and constitutes the basis for a vocational training. It also proves of inestimable value when

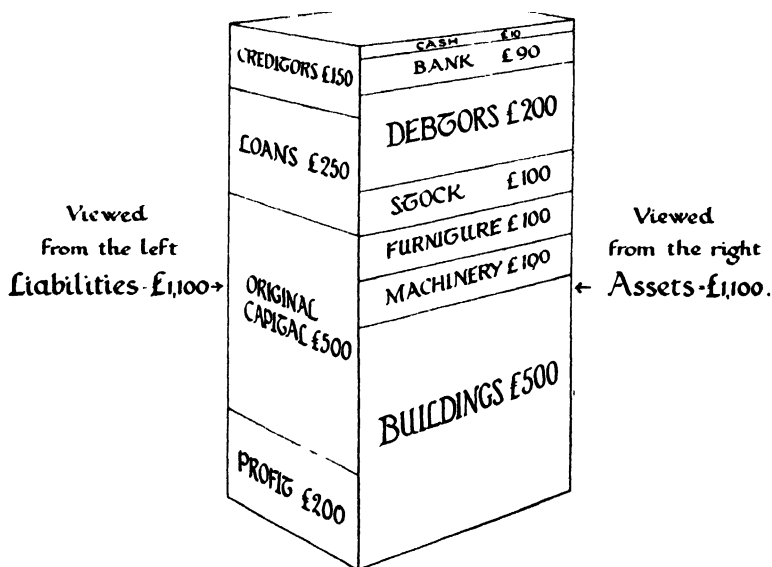
dealing with customers as well as in the attainment of a respected social position.

### ECONOMIC CONSIDERATIONS.

In addition to the personal qualities of the employer—the importance of which, unfortunately, is not always adequately recognized—economic considerations play an important part in the establishment of a business. In particular such considerations must take account of the business capital and the locality of the undertaking, and also of the most opportune time for the foundation of the business.

(a) *The capital of the business* constitutes the economic basis of

### The Business Undertaking.



an undertaking, and is divided into fixed capital and circulating capital. *Fixed capital* is that which is invested in buildings, plant, furniture, etc., and may be used a number of times without complete exhaustion of its utility in that form. *Circulating or working capital* is that which is used for the carrying on of the business. The need for this form of capital must not be under-estimated, for

at the beginning of a new undertaking a loss is generally incurred. It is rarely the case that a business reaps immediately the success which it anticipates, so that the possession of a sufficient amount of working capital helps the trader through these initial difficulties.

The amount of the requisite capital is determined by the nature and size of the undertaking. As a rule a smaller amount of capital is required for the establishment of a medium sized trader's business than for a medium sized factory ; but more capital is required for the establishment of a bank. A few hundred pounds, however, are wanted even for the establishment of a small retail shop. Where adequate means for a prospective undertaking are lacking, participation in a partnership concern is to be preferred to the establishment of a business on one's own account.

In addition to his own capital, a trader may also avail himself of borrowed capital, either in the form of a mortgage loan, i.e. where there is any property in the business, or in the form of credit from suppliers or from banks.

The various kinds of capital used in a trader's business may be seen from the careful analysis of the balance sheet of the concern. The object of the balance sheet is to show clearly the nature and amount of wealth invested in the business. On the Assets side are placed the various items of wealth in the possession of the business, and on the Liabilities side the names of the persons to whom this wealth is owing. For example—

### BALANCE SHEET OF A. TRADER

As at 31st December, 19—

| Liabilities                        |                        |               | Assets                                 |               |                      |
|------------------------------------|------------------------|---------------|----------------------------------------|---------------|----------------------|
| Outside Capital<br>Owner's Capital | 1. Sundry Creditors    | £ 150         | 1. Cash . . .                          | £ 10          | Circulating Capital. |
|                                    | 2. Loan . . .          | 250           | 2. Bank . . .                          | 90            |                      |
|                                    | 3. A. Trader—          |               | 3. Sundry Debtors . . .                | 200           |                      |
|                                    | Original Capital . . . | 500           | 4. Stock . . .                         | 100           |                      |
|                                    | Add profit for year    | 200           | 5. Office Furniture and Fittings . . . | 100           | Fixed Capital.       |
|                                    |                        |               | 6. Machinery . . .                     | 100           |                      |
|                                    |                        |               | 7. Buildings . . .                     | 500           |                      |
|                                    |                        | <u>£1,100</u> |                                        | <u>£1,100</u> |                      |

According to the *Assets side* of the above balance sheet, the capital employed in the business may be divided into Circulating and Fixed. Items 1—4 represent the circulating assets, which are not intended for permanent use. By turning over the circulating capital profit can be made. Hence the chances of success increase the greater the proportion of circulating capital to the fixed capital. Items 5—7 are intended for permanent use in the business, and are known as Fixed Capital.

The *Liabilities side* shows how the capital has originated and to whom it is owing by the business. Items 1—2 represent the amount of capital owing to outside persons, whilst item 3 shows the amount due to the proprietor of the business.

In order that the result of the trader's activities may be disclosed, it is essential that the whole of the expenditure incurred (whether actually paid or not) during the period covered should be charged against the proceeds of the sales for that period. In a similar manner, the income or gains (whether actually received or not) in respect of the period under review should be credited to the Trading Account.

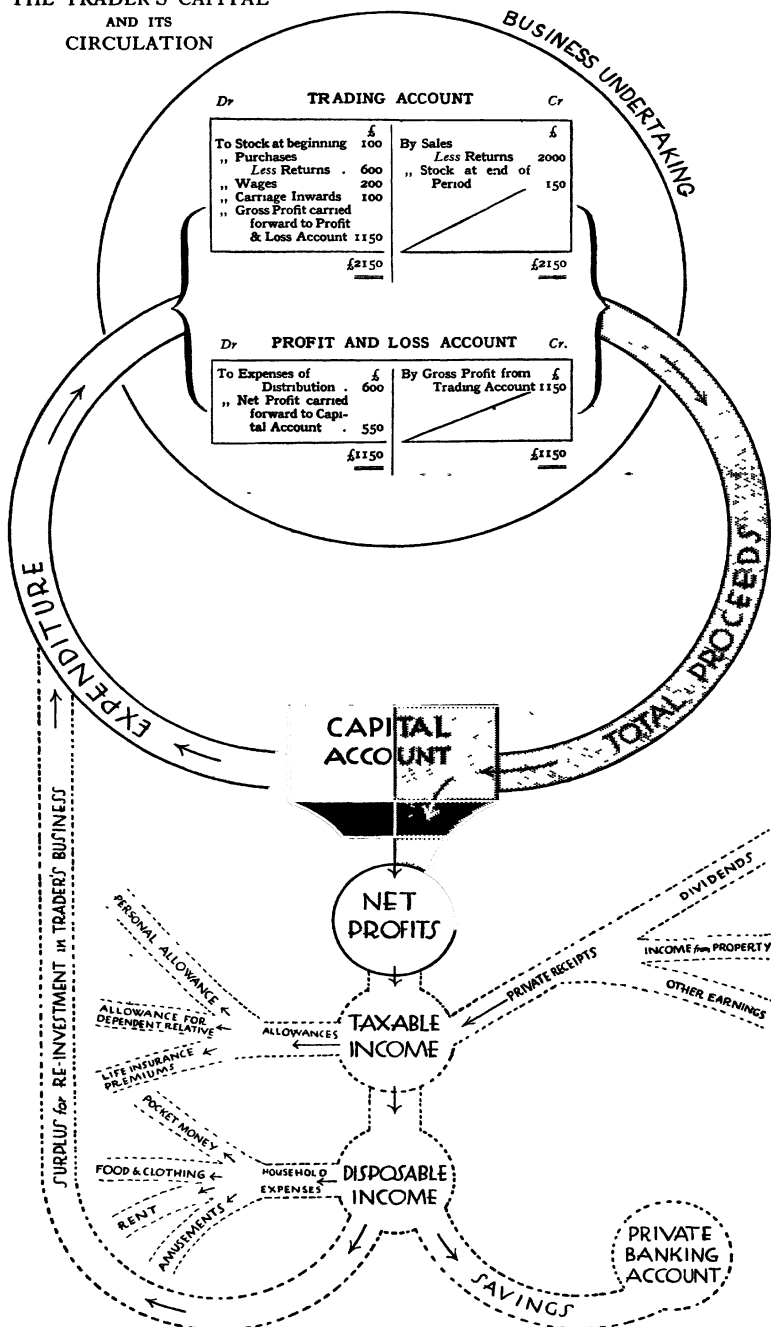
After the trading account has been completed, the gross profit or loss is transferred to the Profit and Loss Account, the chief function of which is to ascertain the net profit resulting from the trading operations of the period. The account is debited with the expenses of distribution for the period and is credited with any gains such as Discount Received. The balance of the Profit and Loss Account—either net profit or net loss—is transferred to the trader's Capital Account.

From the illustration inset here it will be seen that the trader's capital returns after a time with an increase of £550 in the shape of net profits from his business. Any dividends or earnings which may be derived from outside sources are added to this Net Profit, and, after deducting certain allowances for income-tax purposes, the balance will constitute his Taxable Income. From this Taxable Income will be deducted his household expenses, and the remainder (if any) will represent his Disposable Income. A part of this is placed on deposit at his bankers and the balance is invested in his own business as additional capital.

(b) In addition to the question of capital and credit, the *selection of the locality* of a business forms another important economic



# THE TRADER'S CAPITAL AND ITS CIRCULATION





consideration. The more fortunate one is in this matter the more likely is the business to prove a success. When choosing the business premises both their situation and accommodation should be carefully considered.

Banks, departmental stores, and specialized concerns, such as tobacconists or clothiers, are usually found located in a well-frequented spot. Other specialized businesses, such as those which deal in the necessities of life, may do well in side streets. The scope for increasing the turnover of the business depends very largely on the density of the population, the purchasing power of the customers, and the prevailing competition in the neighbourhood. In the case of wholesale businesses which do a mail order or outside trade it is not so much the position in a well-frequented thoroughfare which counts as proximity to the means of transport.

In a factory undertaking the chief points of importance are the availability of cheap power and an adequate supply of suitable labour, as well as facilities for procuring the necessary raw materials. The cost of the site or the ground rent also constitutes an important element.

In addition to the situation, the business premises themselves are of more or less significance in the selection of a locality. With the development of civilization the claims of customers in regard to the business premises in which they effect their purchases tend to rise. The business premises ought to be suitably and tastefully equipped—a matter which calls for capital. On the whole, it is the amount of the available capital which ultimately determines the choice of the business premises, especially in view of the fact that a good position is very expensive. A person renting business premises should allow about 20 per cent of his annual profit for rent. If he pays more than that his expenses are disproportionately high. As the founder of a business cannot easily estimate his annual profit, his chance of loss is always greater than in the case of a person who acquires a going concern. Of course, the possession of premises of one's own has certain advantages. In the first place, an extension or reconstruction of the business premises can be effected more easily than in a rented building, and there is also no danger of receiving notice to quit. Moreover, any appreciation in value benefits the owner of the business himself. The purchase of business premises instead of the renting of them has only this

disadvantage—that owing to the locking up of capital in this way the trader reduces the amount of his working capital.

(c) Likewise, the *selection of the time for the opening of the business* is not unimportant. The most favourable time is during the period of trade prosperity or boom, or in the case of certain businesses, at the beginning of the season. The most unfavourable time is during a period of unrest occasioned by strikes or risks of war. The selection of the most opportune moment for the opening of a business reduces the risks of establishment and affords the chance of new or increased turnover.

### **TAKING OUT A LEASE.**

Having found suitable premises, preliminary negotiations should be entered into with the owner of the property. Great care, however, should be exercised before a final agreement is entered into. It is necessary for the trader to become thoroughly acquainted with the rental value of the neighbouring property, to learn the amount of rates he will be called upon to pay, and above all, to make sure that the neighbourhood is an avenue for business where there is every probability of achieving success.

If the trader is satisfied on these points, his next step must be to obtain the premises on such terms as will guarantee some security of tenure. This may be done either by lease or purchase, but with the majority of those who start in business the latter is out of the question; the trader will no doubt require all his available capital for the conduct of his business, and will be unable to entertain the idea of purchasing the premises. Hence, it will remain for him to secure a lease on the most advantageous terms.

The wisest plan is to secure a short lease of, say, three years, with the option—on the lessee's side—of extending it to seven years, fourteen years, or a longer period. This can usually be effected much more easily at the commencement of a term than afterwards, especially in the case of opening up a new business. Special care should also be taken to have a proper understanding as to the tenant's responsibility for repairs, alterations, and the other conditions which govern the leasing and letting of business premises.

When the foregoing matters have been well considered, and the trader is of opinion that he has command over the right kind of assistants, and a proper business knowledge and experience, together

with an adequate amount of capital, then he may venture, for the primary conditions of a successful undertaking have been fulfilled.

### TEST PAPER I

1. What are the chief points to be taken into consideration by a person who intends to establish a business ?

2. What personal characteristics should a trader possess ?

3. Mention the chief economic considerations which play an important part in the establishment of a business.

4. Into what two classes may the capital of a business be divided ?

5. What are the chief factors which determine the nature and extent of the capital required for a business ?

6. Draw up a simple balance sheet of a business and show—

(a) The circulating capital ;

(b) The fixed capital ;

(c) The outside capital ; and

(d) The owner's capital.

7. From the following *pro forma* balance sheet of a sole trader indicate the various kinds of capital engaged in the business—

BALANCE SHEET OF JOHN TAYLOR, 30TH JUNE, 19—

| <i>Liabilities</i>     |               | <i>Assets</i>           |               |
|------------------------|---------------|-------------------------|---------------|
|                        | £             |                         | £             |
| Sundry Creditors . . . | 2,370         | Cash in hand . . .      | 40            |
| Mortgage Loan . . .    | 1,200         | Stock of Goods . . .    | 1,600         |
| Bank Overdraft . . .   | 1,000         | Sundry Debtors . . .    | 2,700         |
| Capital Account—       |               | Freehold Premises . . . | 2,400         |
| John Taylor . . .      | 2,170         |                         |               |
|                        | <u>£6,740</u> |                         | <u>£6,740</u> |

8. Mr. Thomas Brown has been in business as an ironmonger in a small town for a period of six months and wishes to ascertain the results of his trading. Show how he could do this, supplying your own figures.

9. The books of a retail business show the following results for the trading period ending 31st December of last year. Stock (at cost), 1st January, £17,218; 31st December, £27,398; net sales (i.e. gross receipts, allowance having been made for returned goods), £49,164; purchases during the year at invoice prices, £44,940; cash discounts taken, £880; inward freight and cartage, £132; total working expenses, £15,975. Find the gross profit and the net profit for the year.

10. In selecting the locality for the following types of business, what points would you bear in mind ?—

(a) A departmental store.

(b) A retail grocery business.

(c) A factory undertaking.

11. Enumerate the chief advantages resulting from the possession of one's own business premises.

12. Which is the most favourable time for the opening of a business ?

## CHAPTER II

### THE EMPLOYER AND HIS STAFF

AMONGST the labour forces actively engaged in an undertaking is, in the first place, the entrepreneur himself.

#### THE ENTREPRENEUR.

In a sole trading concern he is the person who undertakes the risks of the business and who supplies the requisite factors of production ; he also determines the nature of the organization, its extent and direction. As the manager, the entrepreneur is responsible for the success of the undertaking ; the work is carried on for his account and any possible losses he has to bear. Of course, it is not always the case that the entrepreneur devotes his whole or even part of his time to the undertaking, especially where it is carried on as a partnership or a limited company. In the latter case the entrepreneur is represented by the whole of the shareholders whose influence in the aforementioned sense asserts itself in the general meeting ; but individually, they have no right whatever to interfere in the management. Here we shall now discuss the sole trading concern, that is, the form of business in which the entrepreneur is personally engaged in directing the business, or at least where he places a part of his time at its disposal. In a very small business he will even have to bear the brunt of the work ; he may be his own buyer, salesman, cashier, and book-keeper. The larger the undertaking the more extensively will the work devolve upon the members of the staff, and the entrepreneur will content himself with the general direction and supervision of the business. Ultimately, he will be content to see that the whole organism runs smoothly, and he will direct his attention to improving and extending the organization whilst the supervision of the routine work is executed by a staff of capable assistants. Whatever may be the particular sphere of activity of the owner, whether he exhausts his energy in detailed work or confines himself to the general direction of affairs, it is most essential that he should be qualified for his work from the standpoint of intellect, training, and character.

## QUALIFICATIONS OF THE EMPLOYER.

On the basis of a good general education, the trader must obtain a training in his particular vocation—a matter which will call for diversified knowledge and experience. It is necessary that he should be fully acquainted with the so-called office arts, such as commercial mathematics, book-keeping, and correspondence. He ought to possess an extensive knowledge of commercial law, including county court procedure, in order to be able to deal effectively with the legal points which arise in his daily business life ; he should also be familiar with the business of banking and exchange, forwarding and insurance, the Customs procedure, no less than with the routine work entailed in dealing with the various auxiliary trades. He should, of course, possess a thorough knowledge of the nature and origin of the goods in which he deals, and of the tastes and requirements of his customers. Where he entertains commercial relations with foreign countries, a knowledge of languages is likewise indispensable. In addition to this, the trader must also be able to regard his own undertaking as a member of the great economic whole, and appreciate it in that light. He must have a grasp of economics in order to understand the fluctuations in demand and supply and of the economic and political measures which affect his trade.

His knowledge must be supported by executive action, by the capacity to employ it in an efficient and useful manner. For this purpose he must have sufficient business acumen to enable him to weigh up a business situation and be able to grasp opportunities as they occur. It is the choice of the right means and their energetic and tactful utilization which spells success. In short, it is *managerial* and *organizing capacity* which the trader must possess.

Finally, he must not lack in particular traits of character if his efforts are to lead to the desired results. He must weigh up and seize upon chances, and once chosen, he must follow up the path with courage and determination. Confident in himself and with an eye on the main chance, he must not allow himself to be deflected by the side issues from his main course. In all his affairs he must devote his attention to punctuality, care, and order, and especially to the fulfilment of his obligations. Unswerving honesty and reliability are such matters, of course, that it is scarcely necessary

to mention them. If a trader loses his good reputation he loses everything.

A good education, business instinct, and irreproachable moral qualities are the ideal which should be aimed at by every trader, including the vast number of small retail traders who supply the consumers with goods on a small scale. At any rate, this ideal should be kept before the latter, even though in many instances it may remain unfulfilled. Many a shortcoming of the retail trade, many a complaint raised against it, find their origin in the lack of commercial training and of a knowledge of the commodities in which they deal.

### **THE STAFF AND ITS QUALIFICATIONS.**

In very small undertakings only can the entrepreneur manage without outside assistants, and carry out all the various duties himself. If he tried to do this in a large undertaking he would either waste his energy in the detailed work of business routine and thus lose the oversight over the whole, or he would preserve his control over the whole and neglect the routine work. Both these methods are equally wrong, and tend to lead to unsatisfactory results. For this reason the owner of a business will engage assistants as soon as the undertaking can afford to bear the cost, and in the expectation that such expenditure will lead to an increase in the turnover and pay for itself. The turnover and its possible increase respectively are decisive factors in regulating the number of the staff. The expenditure on staff must not exceed the amount which the business can stand.

### **CLASSIFICATION OF THE STAFF.**

In the first instance the staff means the assistants who are in the position of the employees of the principal, and who act under his direction and carry out his instructions. According to the nature of their work a distinction is drawn between the technical and the commercial staff.

**The Technical Staff** includes messengers, packers, porters, lift attendants, carmen, etc., that is, the employees who are not engaged in clerical work.

**The Commercial Staff** is engaged chiefly in the execution of the clerical and administrative work. The peculiarity of the

commercial staff is to be found in the fact that they have to carry out work of a nature similar to that of the principal himself, or work which he carried out himself before he engaged the staff. The commercial employees are his auxiliaries, who, in the interest of the business, undertake a portion of the work which he formerly undertook himself. These employees, therefore, must be "chips of the same block," and are usually members drawn from the same social class and having the same education as the principal himself. Their careers likewise will be somewhat similar. The characteristics most in demand are a capacity for hard work, cheerfulness, self-reliance, and adaptability. The junior should realize that, ultimately, payment is always by results; for this reason the best prizes in business tend to go to the industrious and adaptable employees. The table inset here shows the chief members of the staff of a large business together with a statement of their respective rights and duties.

#### INTERNAL AND EXTERNAL STAFF.

The undertaking requires an internal and an external staff. The internal work is carried out in the shop, the warehouse, and the office. The external work consists in visiting suppliers or customers at their own places of business.

(a) In the *shop* the chief members of the staff are the salesmen and the cashiers.

A **salesman** or **saleswoman** must possess sufficient knowledge of the goods to be able to give information to the public or to prospective customers. With this object he must have a good command of language and a courteous demeanour. It is an advantage to know the psychology of the buying public and to be able to judge its tastes. With a good knowledge of human nature, keen observation and skilful adaptability, he must know how to treat each individual customer.

In some trades, especially in the drapery business, the salesman is required to have a very detailed knowledge of the construction and analysis of his commodity, of the raw materials used, and the methods of manufacture. In some branches of textiles it is of more use to his firm and of greater importance to his own progress that the salesman should be sufficiently acquainted with the technique and productive capacities of the branch of trade with which he is

immediately concerned than merely to have the capacity of persuading a customer to purchase some article which perhaps may not be exactly what he needs.

**The Shop Cashier** must be a good mathematician, and a careful and accurate worker, who is capable of carrying out the work of his department with skill and rapidity. In large concerns, especially in departmental stores, there is another kind of employee, viz., the shop walker, who has to superintend the proper execution of each transaction. The remarks referring to the salesmen are applicable to this person in a still higher degree; in addition, he must also possess managerial capacity and ability to supervise.

(b) In the *warehouse* the principal person is the stock-room clerk or manager, who must have an extensive knowledge of the storing and preservation of the goods.

He must be methodical and systematic, and as he may have to keep a record of the stock he should possess a knowledge of accounts. As a rule he is assisted by a number of subordinates who help him in the loading or unloading, packing or sorting, of the goods.

(c) In the *office* the following assistants are engaged—

1. **The Manager**, who directs and organizes the work to be done. Like the owner himself, he must be acquainted with all details of the undertaking, or at least of his own section where there are several departments. For this reason he is generally selected from the older members of the staff who have become acquainted with the conduct of the work through long years of experience in the establishment. He may possess the ability to manage and organize, and should be a person of independent mind.

2. **The Book-keeper**, whose task is to keep the financial books. He must naturally be familiar with the nature of accounts so as to be able to deal with every business transaction as it occurs. The books must not only be correct, but they must be kept with the greatest possible care. For this reason a book-keeper must be methodical and conscientious. In larger undertakings the book-keeping work necessitates the labour of more than one individual, and in that case several book-keepers will be engaged, one of whom—the principal book-keeper—will be entrusted with the drawing up of the final accounts.

3. **The Cashier or Chief Cashier**, who is concerned with the receipt of the takings from the various cash desks in the business. His activity calls for a knowledge of commercial mathematics and accounts, and also for managerial ability. In addition to the qualities of a good arithmetician he must also possess a knowledge of the currency and banking system if he is to administer the liquid funds of the undertaking in a skilful and reliable manner.

4. **The Correspondent** must be a master of style, and for this purpose he should have a thorough grasp of his own language so that he may be able to draft letters and reports correctly and in proper form. If he has to attend to the foreign correspondence he must possess a knowledge of the respective languages.

5. **The Dispatch Clerk** is a person of great importance in a mail order business, and should be acquainted with the peculiarities and tastes of the customers and with everything that has reference to the dispatch of the goods.

6. There are a number of further employees who are engaged as clerks, and who perform routine work of a mechanical nature for which it is difficult to prescribe a special training. Their duties can usually be performed by junior clerks and consist of such tasks as the preparation of invoices, attending to the telephone, filing, etc.

### THE EXTERNAL SERVICE.

The chief members of the staff in the external service are the buyer and the traveller.

**The Buyer** is responsible for the quality of the goods and he carries out the intercourse with the suppliers. His activity is conducted partly in the office by receiving and examining the offers and quotations of the suppliers, partly in travelling about, visiting manufacturers and wholesale dealers at their own places of business in order to acquaint himself in the best and quickest manner with all novelties, and to give his orders. This requires an extensive knowledge of the goods, their countries of origin, and the home conditions of the market, in order always to buy in the right place and at the right time. In addition to effecting the purchases, the buyer has also to attend to the checking of the invoices; he must be an expert calculator, familiar with all the pertinent facts which influence the prices.

**The Traveller** carries out the intercourse with the customers. His

activity in the office is confined to preparing for his journeys, and his principal field of activity is outside the business. He has to cultivate a cordial relationship with existing customers and acquire new ones. He must possess a good knowledge of the goods and of the peculiarities of the business, be a good speaker, with an elasticity of spirit, so as to adapt himself quickly to the wishes of his customers. His work is somewhat strenuous; he must be healthy, hale and strong. He must also be a person in whom confidence may be reposed, since he has far-reaching powers in the conclusion of business.

#### **CONFIDENTIAL CLERKS AND MANAGERS.**

Just as the owner of a large business finds it impossible to carry out the whole of the work himself, so it is impossible for him to be present in all final decisions. For this reason he must have in his employ one or two persons who can undertake some of these tasks for him—persons holding a power of attorney to represent the principal and to act in his stead.

A power of attorney is usually granted to an agent of the principal, who has the unrestricted right to carry out all actions in his stead. In the selection of a person having such far-reaching power, the owner of the business must naturally exercise the utmost care. As a rule they are chosen from the senior members of the staff who have shown themselves worthy of confidence, such as the manager, the cashier, or the chief book-keeper. The position entails great responsibility both as regards his working ability and his character.

#### **STAFF WELFARE.**

When the owner of the business has carefully selected a suitable staff, it is also his duty to ensure that his employees are comfortable; they will then execute their task efficiently and find it a pleasure to perform their duties in the best possible manner and with due regard to the firm's interest. The ideal employee is the one who fulfils his duties as if he were engaged in his own business. For the creation of such a spirit in the employee, it is essential that he should receive an adequate salary, and that his working conditions should be properly regulated.

In large concerns the salaries of the members of the commercial staff are frequently based on certain scales. Sometimes the

employees are divided into three grades, viz., those who undertake ordinary routine duties; those who are qualified for special tasks, such as dispatch, book-keeping, correspondence, etc., and independent tasks, such as principal cashier and chief book-keeper. In order to offer him an incentive to good work, an employee may, in addition to his salary, receive a certain proportion of the profits, which may take the form of a commission on business done, as in the case of a salesman or traveller. This method of participating in the profits, however, can be extended only to those members of the staff the result of whose services can be directly traced. If all the members of the staff are to have such a share in the profits, it can be arranged that each gets a share of the net profits according to the scale of his salary. In a highly organized business, such as a departmental store, a certain percentage of the profits may be apportioned in the first instance to each department, and this share may then be distributed among the members of the department on the basis of their salaries. There are no reliable methods for measuring the efficiency or output of the staff of a commercial undertaking, as many of the tasks are not undertaken by a single individual but pass from hand to hand. The number of working hours, the holidays, notice of termination of employment, and similar matters are prescribed partly by law and partly by contract.

It is also important for the welfare of the employees that the offices should be properly arranged and equipped, a subject with which we shall deal in a subsequent chapter.

#### **AUXILIARY MEMBERS OF THE STAFF.**

The permanent employees in a business increase the overhead charges irrespective of the favourable or unfavourable outcome of the business. If these expenses are too high in comparison with the turnover, the owner of the business must consider whether he should substitute these persons by others whose services are less expensive and which may be utilized as occasion arises. Such services he may remunerate on the basis of results.

A business man may entertain relations with commission agents or manufacturers' agents with the object of buying or selling goods. Apart from the possible saving in expense, there may be other reasons which induce a business man to avail himself of the services of persons outside his own business, such as the special nature of

the goods, the opportunities for buying or selling, the specialized knowledge and experience entailed in the conduct of trade with overseas countries. Certain commercial institutions, such as the Produce Exchanges and Auctions are, as a rule, at his disposal only if he avails himself of the services of brokers, auctioneers, and other middlemen.

The relationship of the business man to these auxiliaries is a totally different one : for these persons are in the position of independent traders who, in particular cases, carry out the instructions of their principal, but who are independent in their actions and less tied than the ordinary members of the staff. The latter are regulated by the law of master and servant, whereas agents are regarded as independent traders in their dealings with their principal. The chief feature of their business is to be found in the fact that they carry out their transactions for the account of others ; they undertake the purchase or sale of certain goods for the account of a manufacturer or a wholesaler. They buy or sell, not for their own account and risk, but they simply mediate the purchase or sale for those who wish to acquire or dispose of goods. They may thus be described as intermediaries. If, apart from that, they buy or sell on their own account, they do this, not in their capacity as agents, but as traders on their own account.

### **THE COMMISSION AGENT.**

This person occupies a special place in the sphere of agency on account of the fact that he concludes business only in his own name. In his dealings with the supplier, from whom he buys goods for his principal, he is the buyer himself ; or in his relationship with the customer, he is the seller. The name of the principal is not disclosed either to the supplier or to the buyer, and on the whole the special relation between principal and commission agent does not concern the third party at all. Between the principal and the commission agent a commission contract is made, and between the commission agent and the third party it is simply a contract of sale or purchase. Thus, since in this respect the commission agent plays the rôle of an independent trader, he must enjoy the same respect as a dealer on his own account if he is to undertake his business transactions with success. The magnitude of his capital or credit, however, is of less importance, since he buys and sells on commission : he needs

no capital of his own unless he credits to his principal the goods purchased or gives him an advance on account of sales—a procedure common in overseas trade. In this way the commission agent places at the disposal of his principal, not only his services, but his business connection, his knowledge, and his experience, and under certain circumstances even his capital and his credit. The relations of the business man to a commission agent may extend only to an occasional transaction, or they may cover a long period of time.

In any case he has to remunerate the commission agent for his services only to the extent of the transaction concluded. The charge made by the commission agent raises the price of the goods purchased or reduces the profits realized on sales. Thus the employment of a commission agent is associated with a certain amount of loss. Further disadvantages are that the principal dispenses with the direct relations with his suppliers or customers ; he loses touch with the market, and does not learn of the customer's wishes except through a third party. In the fixing of prices he may safeguard himself by stipulating the price, but it is doubtful whether he should do this without taking into consideration the wishes of the commission agent to see whether the demand is justified : in the end he has to rely entirely upon the honesty of the commission agent. The greater the distance separating the two parties, the less becomes the possibility of exercising control over the clientele. The business man will therefore have to consider in every case whether the employment of a commission agent is suitable ; whether the profit accruing from his collaboration is greater than the expense which is caused thereby, and whether the advantages outweigh the disadvantages.

In the matter of expense it must be remembered that the employment of a commission agent may enable the trader to dispense with one or more employees whose task would otherwise be to cultivate direct relations with the suppliers and customers. In a way, the commission agent places his organization at the disposal of his principal, and apart from this he also affords him the benefit of the knowledge which is necessary for selling goods in a particular place. Furthermore, he liberates him from certain risks when buying—for instance, the risk of transport ; and when selling under certain circumstances—the credit risk, where the commission agent sells to his customers

on credit and in return for a certain commission accepts the *del credere* risk for his principal.

The establishment of business relations proceeds from the principal, who gives instructions to a commission agent for the purchase or sale of goods or consigns to him a stock of goods for sale. It sometimes happens that the commission agent approaches firms appearing suitable to him and offers them his services, sending or demanding samples, and communicating market reports. The commission agent likewise may send reports to firms with whom he is in actual connection in order to induce them to enter into certain business transactions.

In the execution of his instructions, the commission agent has to exercise the same care as an ordinary trader. He has to follow swiftly the instructions given to him, notify the principal of any transactions concluded, and furnish an account of the business done.

#### **THE MANUFACTURERS' AGENT.**

The manufacturers' agent does not act in his own name but in the name of his principal on whose behalf he enters into dealings with suppliers or customers. He has a contractual relationship only with his principal. This relationship is generally entered into for an indefinite period, so that during its existence the agent is permanently engaged in safeguarding the interests of his principal. The contract of agency may be terminated by giving notice similar to that in any other contract of employment. Nevertheless, the agent is an independent business man. As a rule, he is remunerated only in accordance with the services rendered, but sometimes a certain minimum emolument is guaranteed to him. He may at the same time be the representative of several firms, and he can arrange his business organization to suit himself. Of course, in this connection instructions are sometimes given to him. The more he is restricted in his liberty of action, and the stronger the financial bond which ties him to a certain principal, the more he loses his actual independence and the less he will distinguish himself from an ordinary employee, a traveller or a branch manager.

The principal who does not wish to give up direct contact with his suppliers or customers and who wants to be represented permanently in a certain area for the purpose of purchasing or selling

goods, but who wishes to avoid the expense of a branch or of a permanent traveller, will engage a suitable agent. He has the additional advantage that he is familiar with the business conditions of his district, and that he knows a number of prospective customers. In such a man the principal possesses a confidential person, who has his seat in the locality in which the business is to be transacted, and who entertains permanent intercourse with the customers, and from time to time sends reports of the market conditions. Especially in large cities where the demand is great and the occasional visitation of customers by travellers is not sufficient, the permanent representation by an agent is to be preferred. These advantages, however, are also accompanied by certain disadvantages. In the first instance, the price of the goods is increased by the amount of the commission—a fact which may choke off many a buyer. Furthermore, the employment of an agent is a matter which involves great confidence, since his actions, in most cases, are beyond the immediate control of the principal, and this lack of control increases with the distance between the two parties. An agent who is careless in the selection of customers may inflict great damage on the business of his principal.

The conclusion of an agency contract may emanate either from a principal who seeks an agent, or from the agent who offers to take over the agency for a certain firm. The agent may confine his activity to the locality in which he has his business, or he may exercise it by travelling from place to place. In this connection a distinction is drawn between a *local agent* and a *travelling agent*.

If, with the object of visiting the customers in their own district, wholesalers or manufacturers employ an agent, he is frequently described as a *local agent*. An agent who has a certain district allotted to him in which to do his business is described as a *district agent*. Where the district is very large, so that the agent alone cannot deal with it properly, he is appointed as the *general agent* for the district, and he in turn appoints a number of *sub-agents*.

The most important task of the agent is to carry out, within the scope of his business, the mediation of contracts for and on behalf of the principal. According as to whether he is engaged in buying or selling goods he is described as a *buying agent* or a *selling agent*.

Since the agent acts only as a mediator the actual conclusion of the contract is usually left to the principal, who gives his consent.

It is necessary, however, that the declaration of acceptance on an order should be made immediately. If the principal omits to notify the customer of his intention such silence is considered to be an acceptance of the business proposition. Where the agent concludes contracts without first submitting them to the principal, he must be specially authorized to do so. For the rest, almost the whole of the business intercourse with the customers passes through the hands of the agent. He re-directs letters and invoices ; he obtains acceptances of bills of exchange ; hands over documents ; receives claims ; passes on claims in regard to faulty goods, etc. As regards payment for the extension of terms of credit, it is necessary that he should be specially authorized to deal with these matters. The agent also transmits market reports, examines the financial standing of customers, and forwards new samples to them. He is remunerated for his services by a commission. Naturally this commission is due only after the business has been concluded and payment made. As a rule commission accounts are rendered by the agent to the principal about every six months.

### THE BROKER.

Like the agent, the broker mediates the conclusion of contracts of purchase or sale ; but unlike the agent, he is not permanently entrusted with the sale, but is engaged only from one transaction to another, and he places his services at the disposal of all and sundry without any restrictions. He devotes his activity to certain articles of trade, and he accepts buying and selling instructions for these commodities. He stands as a neutral mediator between two parties and enters into a contractual relationship with both of them—being responsible for his actions to both of them.

His activity consists in bringing together suitable buyers and sellers, and in concluding the transaction by exchanging *contract notes* between them. His duty is generally complete when he has brought the two parties together.

The conclusion of the contract proper, especially its fulfilment, concerns only the two parties. It may happen, of course, that the broker does not disclose the name of one of the contracting parties, in which case he takes its place and also remains responsible to his principal for the fulfilment of the contract. In such cases, however, he exceeds the strict functions of a broker.

The employment of a broker is very often not left to the free will of a business man, but he may be forced to employ him if he wishes to carry out his business on an exchange and if the rules of the exchange stipulate the employment of a broker.

The introduction of brokers on the exchanges is intended to place at the disposal of the trading community mediators whose reliability and impartiality are indubitable. Apart from the compunction to employ brokers in exchange dealings, their services are voluntarily utilized by those dealers who, like importers, deal with all sorts of goods ; these people, having neither sufficient knowledge of the goods nor sufficient grasp of market conditions, sell their merchandise to inland wholesale merchants through brokers in order to secure in this way as high a price as possible. As we have already mentioned, brokers are experts in certain classes of goods and thus their duties exceed those of a pure mediator. Where, for instance, it is a question of cotton or tobacco, they must inspect the bales on their arrival and classify them. Thereupon they draw samples and submit them to the parties interested. They are present when the buyer takes over the goods and, finally, in the case of claims, they function as arbitrators. Their services are remunerated by means of *brokerage*, which is expressed as a percentage of the value of the goods.

### AUCTIONEERS.

These are directors of a public auction. They are instructed by the owners of goods to sell them by auction for and on behalf of whomsoever it may concern, and to complete the contracts of sale with the buyers. These auctions are held periodically for the sale of foreign produce and in such articles in which this method of sale has been customary. These wholesale auctions are chosen by the owners of goods as the method of disposing of them because the demand assembled at these auctions offers an easy possibility of sale and a price in consonance with the market position. At the large importing centres brokers frequently act as auctioneers on the wholesale markets, and are employed for this purpose because of their expert knowledge of the merchandise. As in the case of brokers, there are sometimes official auctioneers who have to be sworn in and for whom certain auctions are reserved. Auctioneers are remunerated either by a *commission*, which has to be borne by

the seller, or they receive a certain percentage on the turnover or a certain amount on every lot sold.

### TEST PAPER 2

1. What, precisely, do you mean by the entrepreneur of a business ? Who is the entrepreneur in (a) a sole trading concern, (b) a partnership, and (c) a joint-stock company ?

2. Examine the nature of the duties which usually devolve upon the sole trader.

3. A friend of yours is about to start a business in the home trade. What requirements should he fulfil with regard to training and personal characteristics ? In what respects would your answer differ if he were carrying on business with a foreign country ?

4. "The turnover and its possible increase respectively are decisive factors in regulating the number of the staff." Explain and elucidate this statement.

5. What do you mean by the staff of a business ? Describe briefly the nature and functions of (a) the technical staff, and (b) commercial staff.

6. Enumerate the chief members you would expect to find on the internal staff of a large drapery business. In your answer distinguish between the persons engaged in the office, the warehouse, and the shop.

7. You are called upon to organize a large grocery business. Assuming that you have control of twenty persons, state how you would delegate their duties with the object of ensuring the maximum output and efficiency.

8. Name two of the principal members you would expect to find in the external service of a large business.

9. What is meant by "staff welfare" ? How does attention to the welfare of the staff lead to an increase in business efficiency ?

10. State the legal relationship which exists between a sole trader and the members of his staff ? In what respect does this relationship differ from that with outside agents ?

11. Under what circumstances should a trader utilize the services of a commission agent ? How are business relations with such agents usually established ?

12. State the function of a manufacturers' agent. When and by whom is such an agent employed ?

13. Distinguish carefully between : Local agent, district agent, general agent, sub-agent, buying agent, auctioneer.

14. In what respect does a broker differ from an agent ? What useful work does the broker perform, and how is he remunerated for his services ?

15. Write short notes on three of the following : Patents ; Trade-marks ; The taking out of a lease ; The Registration of Business Names Act, 1916.

## CHAPTER III

### THE INTERNAL ORGANIZATION OF A BUSINESS

AFTER the requisite staff and adequate financial means have been procured, the task now is to bring about a live co-operation between these various business factors so as to make the undertaking as effective as possible. The manager who is responsible must formulate a scheme for the performance of the necessary work, and must delegate the duties according to the peculiarities and abilities of the various employees, and the whole labour power must be fitted into the framework of the scheme to allow of its full exploitation ; in a word, he must create the internal business organization. Often there is a possibility of attaining a better result with the same number of staff by a more appropriate distribution of the existing work without resorting to additions to the staff, and it must be the endeavour of the organizer to obtain a maximum of success with a minimum of expenditure.

#### NATURE AND FUNCTION OF THE ORGANIZATION.

The function of the organization is to secure the direction and management of the whole business on uniform lines. The work must be distributed amongst the members of the staff on sound principles of division of labour, and guide lines must be set up for the performance of the various tasks and to allow of the co-operation of the different departments, without friction, and with a view to welding together the individual members of the staff into one harmonious whole, which guarantees the attainment of the desired result.

The larger the undertaking the more complex and specialized will be the organization, whereas in a small undertaking there will be but little scope for specialization. In the retail trade the organization will be different from that of the wholesale trade. In the former, especially in very small businesses, the chief object is the development of direct intercourse with the customers ; the greatest attention is therefore paid to the equipment of the shop and to the selling arrangements. In the wholesale trade, on the other hand,

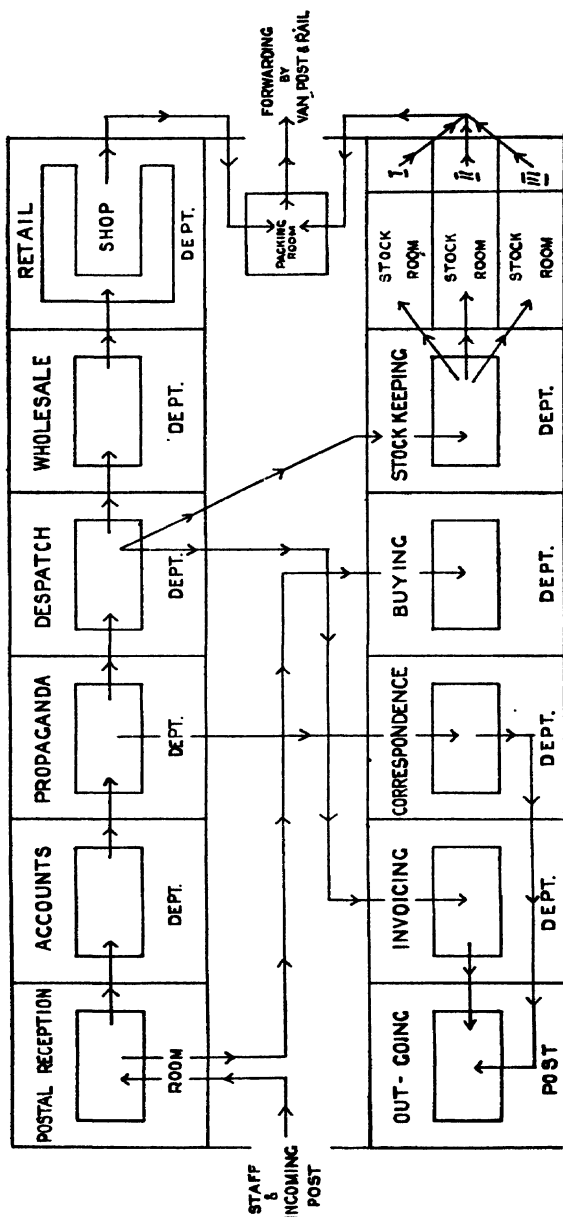
a special sales or reception room for the cultivation of personal relations with the customers is frequently non-existent, and where it does exist it only serves the purpose of a show room. Here the interest centres chiefly in the office and in the warehouse. In any case, the three principal branches of the trader's business are the shop, the office, and the warehouse. The diagram on page 25 shows the lay-out of a business engaged in the combined wholesale and retail trade.

### THE SHOP AND ITS EQUIPMENT.

According to its significance, the shop must be so equipped that it conforms closely to the requirements of the buying public. A light and attractive room must invite the customers to enter it. It must be commodious, and the window display must be representative of the articles sold in the shop. Adequate supplies of goods must be kept in the drawers or shelves of the shop, for it creates an unfavourable impression if the goods have to be fetched from the warehouse. However, the supplies in the shop must be kept within moderate limits and with a view to the best utilization of the available space. In particular, the counters must not be over-burdened with goods and thus alienated from their proper purpose, viz., to facilitate the display of the goods requested by the customers. The scales must not be hidden behind heaps of goods, thus preventing the customers from seeing the goods weighed. It is obvious that the lighting must not be stinted, and there should be some kind of seating accommodation for the customers. The great departmental stores and specialized businesses go farthest in this respect, by the offer of music and refreshments to their customers. A shop window tastefully displayed acts as a complement to the shop's interior and serves as an advertisement in attracting the passers by.

In large retail shops, in which the owner is not in a position to exercise a continuous control over his selling staff, a special system of control must be established to protect the business against loss through defalcations. As a rule special cash desks are installed, and the selling staff has no authority to accept payment from the customers. They have to make out bills in duplicate, one of which is given to the customer to take to the cash desk for payment. The goods are handed over to the customer in return for the receipted

# LAY-OUT of a BUSINESS ENGAGED IN THE COMBINED WHOLESALE & RETAIL TRADE



cash check. The selling assistant collects these receipted checks and enters their amount on a special list. In like manner the cashier makes a note of the amount ; thus the lists of the sales assistant and of the cashier furnish the total receipts of the day.

### THE OFFICE.

In the office are performed the various commercial tasks which are necessary for the systematic execution of the business : the correspondence with the suppliers and the customers ; the receipt of offers and their examination ; the fixing of prices ; the execution of orders ; the making up and checking of invoices, and the dispatch of goods. Here, also, the accounts are kept and the cash transactions are recorded. In the office likewise a control is exercised over the outstanding accounts owing by customers, and the activities of the travellers and agents are supervised by means of statistical tables of various kinds.

As the supervision of these tasks in a large undertaking would far surpass the working capacity of any one person, the office is organized into a number of sections each having its own manager at the head. The supreme management of the whole business is confined to the supervision of the general working and to the delegation of duties among the members of the staff. The supervision and practical execution of the work are left to the manager of each section. The most important principle of organization is the assignment of duties on the basis of the functions performed ; buying, selling, dispatch, correspondence, etc. Further tasks may arise which involve the formation of subsections or may even become a decisive factor to which another section may become subservient, as, for instance, home trade and foreign trade, retail and wholesale trade, in cases where both forms of trade are carried on by one undertaking. We shall now consider the office organization with special reference to these various tasks—

(a) **General Office.** This is the seat of supreme direction of the whole business, and here converge all the threads and ramifications of the undertaking. From this centre the various departments receive their instructions. Here the departmental managers submit their wishes, offer their objections, etc. In the first instance the incoming post is taken to this central office ; the letters are

stamped with the incoming letter stamp, entered into a special index book which has columns for current number, the sender, the date of receipt of the letter, and possibly also a remark in regard to the method of treatment. In some cases, this operation entails a considerable amount of work. The *inwards letter book* affords valuable reference in the case of any queries concerning the receipt or otherwise of correspondence. Besides the stamp showing the incoming date there is also a space in which are entered remarks as to the further course the letter has to take and the various departments through which it has to pass. The letters are directed by the general office to the departmental managers who have to deal with them.

(b) **The Buying Department.** This is one of the most important departments of a business and is presided over by a person competent to make decisions about the purchases. The sole instruction which this department receives from the general office appertains as a rule to the amount of money which can be placed at the disposal of the department. The whole success of the business depends to a great extent upon the experience and ability of the buyer and upon his skill in the selection of suitable sources of supply. The buyer must keep himself informed of the state of the market by a careful perusal of the trade and commercial papers. It is the duty of his department to send out inquiries as to prices and to invite suppliers to send in quotations as well as to give orders. The execution of the orders must be supervised and, in cases of non-delivery, reminders must be sent out. The quantity and quality of the incoming goods must be tested and examined in the warehouse, but all other points, such as prices, discounts, and invoices, are checked in the department. It is advisable to demand invoices in duplicate. The original then remains in the buying department and the duplicate goes to the warehouse for verification. After checking, the invoice is sent to the cashier's department with instructions to pay it in due course. Any claims, of course, will have to be taken up by the buying department before giving these instructions. It is also the business of this department to keep a record of all purchases, although this is not necessary where the invoices are received in duplicate. It is advisable to keep a careful record of all quotations in order to facilitate the discovery of suitable sources of supply. A buying register should be kept in which are

entered the names of the suppliers and the nature of the goods supplied.

(c) **The Estimating Department.** This department is frequently combined with the buying department, and must in any case be in close collaboration with that department. The estimating department has to calculate the cost price of the goods and has to fix the selling price on that basis. The buying department supplies a portion if not the whole of the material upon which the calculation of cost price can be built up, and in addition to the invoices, the documents regarding Customs duty, freight, cartage, etc., whilst the book-keeping department supplies the material necessary for the additions for expenses. The percentage added as profit is determined by the general office. The estimating department has to consult the dispatch department where the price of the goods has to be modified so as to adapt itself to certain terms of delivery or of payment.

(d) **The Sales Department.** This department devotes itself to the sale of the goods. For this purpose every means of propaganda must be employed, such as general or particular offers in reply to inquiries. A list of customers and their turnover is usually kept for the purpose of control, and this proves useful when interrupted intercourse is being resumed. If the undertaking works with travellers or agents, this department has the task of keeping in touch with them and controlling their activities. All necessary information about customers, new samples, prices, etc., must be forwarded to these travellers and agents. Regular reports must be submitted by these latter persons and must be carefully perused by the sales department. The particulars of the travellers' and agents' expenses must be recorded as well as their success in gaining orders.

(e) **The Dispatch Department.** This department receives the incoming orders either in the original or in copy. On these order sheets information is given concerning the customer, the goods, the prices, the terms, and the method of dispatch. A separate order voucher is drawn up for each customer, for each period of delivery, and also for each route of dispatch. On these vouchers agents and travellers register the order and leave a copy with the customer. The method of dealing with the order vouchers is as follows: The conditions of credit are first examined, that is, whether credit, cash on delivery, cash in advance, etc.; control of the terms of delivery and a

comparison of the prices with the price lists, preparation of the goods ; the drawing up of the dispatch papers ; the calculation of the final amount, and the making out of the invoice. After the order vouchers have been treated in the dispatch department they usually find their way into the warehouse as a documentary guide for the entries into the stock book, and thence they are passed into the statistical section. It is thus the duty of the dispatch department to get together the goods ordered, prepare them for dispatch and actually send them away. This department also keeps the dispatch books or dispatch lists. As a rule several of these are kept simultaneously in order that the various employees may carry out their duties without interfering with each other. Each one attends to a certain group of customers, and for each group a separate dispatch book is kept. These dispatch books are passed daily into the book-keeping department so that the work of this department does not clash with that of the dispatch department. For each group of customers two books may be kept—one for even dates and one for the odd dates. This system prevents any interference with the work of the two departments.

(f) **The Correspondence Department.** The whole of the correspondence of the business may be dealt with in this department either by drafting out the letters independently on the basis of instructions, or else by simply receiving from the other departments the shorthand notes which are transcribed on the typewriter. The advantage of this concentration of the whole correspondence in one office is that no two or more letters from the various departments are written to the same customer on any one day. Moreover, different kinds of office appliances used for the execution of this part of the work, such as dictating machines and typewriters, adding machines, copying presses, addressographs, and stamping machines, are put to a more economic use and need not be purchased in quantities larger than is necessary. An alternative method, of course, would be for every section to deal independently with its own correspondence. A compromise between the two methods would be to leave the independent conduct of the correspondence to the buying and selling departments but to have a common correspondence section for all the other departments. As a rule the correspondence will be with the customers, that is, it will result from the dispatch of the goods and the settlement of the accounts, such as confirmation

of orders, advices of dispatch, replies to reminders and notifications of claims, the making of status inquiries, the confirmation of payment, and the sending out of cheques. In large undertakings it is usual to preface the main contents of the letter with a guiding remark indicating the section from which it emanates and to give a short summary or index of the contents, with a request to the addressee to avail himself of the reference in his reply, e.g.

Ref. AH/GT.

DISPATCH DEPARTMENT,  
20th June, 19—.

Dear Sir,

*Re your order of the 12th instant.*

This facilitates the proper direction of the letter or of its reply to the department concerned, and it saves superfluous phrases in the context of the letter.

A further task of the correspondence department is the copying of the letters or the provision of a copy which remains in the business house. To-day hand-written copies of letters are scarcely in use anywhere, and even the copying into a press copy-book is now to be found only in the less progressive firms. Press copies by means of a rotary copying machine are made or else a carbon copy is produced on the typewriter. The disadvantage of this latter method is that subsequent corrections of the original have to be made in the copy—a matter which might easily be forgotten. The making out and stamping of the envelopes are likewise attended to by the correspondence department, and for this purpose there are also special envelope addressing machines.

(g) **The Filing Department.** In this department, which may be regarded as a subdivision of the correspondence department, the incoming and outgoing letters and invoices are filed away in a systematic manner to allow of their being found quickly at any time. Like the correspondence department itself, the filing department may be arranged in such a way that files are kept either separately for each department or the whole of the material may be concentrated into a central filing cabinet. The advantage of this latter system is that the whole of the correspondence with a particular customer is collected in one place ; but in very large

undertakings this method may have its disadvantages, since much time may be lost in running from the various offices to the filing department to turn up old correspondence. This drawback, however, may be prevented by the installation of a system of pneumatic tubes.

The manager of the filing department has to see that the letters or documents to be filed away are ready for filing, that is, that they have been dealt with; and for this purpose he must examine the instruction slip. The filing department must be arranged in such a way that the desired correspondence may at any time be found speedily and without loss of time. For the purpose of filing various types of letter files are in use, and these are inserted either horizontally or vertically into drawers. Usually the letter files are so constructed that the spring clasps or mechanism permits of a quick insertion or withdrawal of the documents, although such files often take up much space and frequently contain the correspondence of a number of customers.

Which is the most suitable of the various types of files is a question which must be determined in the light of the expense and the available accommodation. The files are kept on the shelves or in the cabinet in alphabetical, geographical, or numerical order. Furthermore they may be kept apart according to the section or department to which they belong. The alphabetical arrangement may with advantage also be combined with the geographical arrangement provided the same name is not repeated too often, thus rendering the file difficult to use. Numerical filing, in which every customer and his special file are given a certain number, entails the employment of rapid files and a special register from which the number of a customer may be quickly ascertained.

(h) **The Chief Cashier's Department.** The whole of the cash transactions are concentrated in this department. All the takings of the various cash desks in the shop find their way to this department, and all other payments of the customers are there received. This department also deals with the payments to be made or the settlements of accounts. The guiding principle of this department should be never to make any payment without documentary evidence. For certain groups of payments it is advisable to establish subsidiary cash departments, as, for instance, for the petty cash, carriage, cartage, etc., so as to lighten the work of the chief cashier.

The latter person has to attend not only to the cash transactions but in many cases he is responsible for the payment of the liabilities which must be effected at the right time, that is, neither too early nor too late. He must also regulate the intercourse with the bank and supervise the keeping of the cash books.

(2) **The Accounts Department.** In a sense this forms the centre of the whole undertaking, since all the documents for the keeping of the accounts are here concentrated ; moreover, this department is brought into touch with nearly all the other departments. The data required for the compilation of the debtors' and creditors' accounts are supplied chiefly by the bought, sales, and cash books. The cash book is posted by the accounts department into the ledger or a tabular cash book is kept. All business transactions which refer to the buying, selling, or the paying for goods are recorded in the accounts department as well as the dealings in bills of exchange. Lastly, the journal and private ledgers are kept also in this department. In addition, the keeping of various auxiliary books, such as bills receivable, stock and bank pass books, may come within the sphere of this department. Frequently the dunning system is also under the control of the chief accountant, who is responsible for keeping an eye on customers' payments and the dispatch of reminders to remiss debtors. In some cases the work of dunning customers falls to the cashier, since he is most keenly interested in the payment of customers' accounts because he in turn has to pay the creditors.

The various departments to which we have referred are not always recognized in small undertakings and are sometimes to be grouped into a small number. On the other hand, in very large concerns there may be an even greater amount of subdivision. Here also we find a concentration of certain tasks into new sectional units whose managers act as mediators between a department and the supreme control. Thus, for instance, in large departmental stores there is a central department of the commercial section, embracing buying and selling and dispatch, and a section for finance which embraces the cash department, the accounts and statistics, etc. These are subordinated to the general manager who is also indirectly responsible for the work in the other sections such as the correspondence department, the drawing office, and the secretary's office.

## THE WAREHOUSE.

This department contains the majority of the business assets and in particular the goods which constitute the actual centre around which the whole of the business revolves. Hence the greatest care and attention should be paid to this department, and the position of the warehouse manager or stock-keeper is one of great responsibility. He must see that the goods are stored away in such a manner that they are protected as far as possible from deterioration, and that at the same time they can be easily controlled and found. The following rules should therefore be observed—

1. A special stock room should be provided and should be locked up when not in use.
2. It should be placed under the control of a special person—the stock-keeper.
3. As the stock room is a special department, it should keep its own accounts of goods received and dispatched.
4. The stock-keeper should be able to account at any moment for the existence of any article in stock and must report to the buyer any shortage of supplies.

Small articles in original packages must be arranged in suitable receptacles, each containing a stated quantity, so that it may be ascertained easily what quantity of each article is in stock. Where goods are sold by weight, as in the case of tea and sugar, the weight contained in each package should be marked plainly either on the package or on a label attached to it.

It is the stock-keeper's business to give due notice of any shortage of stock in order that it may be supplemented or renewed. For this purpose it is advisable to keep a record of all incoming and outgoing goods in a stock book. There are various methods of keeping this book, but whatever method is adopted it should enable one to ascertain at any time the amount of the existing stock.

If a control stock book is also kept in the accounts department it should be frequently compared with the entries made in the stock book kept in the warehouse. These stock books may also serve as the basis of the selling statistics, as they furnish particulars of the date of the dispatch of the goods and also of the localities to which they have been sent.

Finally, a distinction must be drawn between *stock-keeping*, that

is, the receipt and careful preservation of the stock, and *stock-taking*. The latter consists of the valuation of all the goods and stock in trade and the machinery and plant of a business, so that the assets of the undertaking may be correctly ascertained for the purpose of preparing the periodical balance sheet. This operation involves a large amount of work since every article has to be counted and listed either at cost or market value—whichever is the lower. Particular care must be taken to see that the stock is not over-valued, otherwise the net profits for the period will be artificially inflated.

### TEST PAPER 3

1. What is meant by the "internal" organization of a business? What is the aim of such an organization?

2. "The larger the undertaking, the more complex and specialized will be the organization." Do you agree with this statement? Cite an example from your own observation in confirmation or in refutation.

3. In what respect does the organization of the ordinary retail shop differ from that of a wholesale business?

4. If you were asked to advise a shopkeeper as to the "lay-out" or general arrangement of his shop and its fittings and stock, what points would you bear in mind?

5. What are the general principles of staff organization? On what principle would you assign duties to the members of the staff of a large stationery business?

6. Write notes on the following, viz.: General office, buying department, costing department, dispatch department, and correspondence department.

7. Imagine you have been appointed manager of a grocery and provision business with a staff of twenty assistants, and that you are required to delegate the duties among the various assistants in such a way as to attain the maximum of efficiency. On what lines would you proceed?

8. Draft a scheme of organization of any business with which you are acquainted, showing clearly the principle on which the delegation of duties is carried out.

9. Describe the duties of the dispatch clerk.

10. What do you mean by Ref. AH/GT written at the top of a letter?

11. What are the advantages of having a special correspondence department in a large business as compared with the methods of allowing each section to deal independently with its own correspondence?

12. State the advantages and disadvantages of a centralized filing department. What points should be observed in the control of such a department?

13. Why is it impossible to prescribe a ready-made scheme of organization which will apply to every business?

14. What is the difference between stock-taking and stock-keeping? Briefly describe each.

## CHAPTER IV

### OFFICE EQUIPMENT AS AN AUXILIARY

THE rooms in which, and the equipment with the aid of which, the activity of the trader is carried on at the present time are vastly different from those of days gone by. Whereas in the past any small, dingy corner seemed sufficient to serve as office, to-day the greatest possible demands are made for office accommodation. This is especially the case in the large commercial undertakings in which hundreds and even thousands of employees are engaged. In large palatial buildings the offices are found distributed over three, four, or even more floors with large, airy, clean, and comfortably furnished rooms for the members of the staff ; there are also smaller rooms for the private offices of the management officials, and waiting and reception rooms to facilitate dealings with the public. The most modern technical equipment is available for ensuring the best sanitary conditions, ventilation, and lighting, as well as for artificial illumination. The various floors are connected with each other by lifts for passengers and goods, and also by speaking tubes, private and public telephones, so that the entire business is transacted in the most direct manner without any unnecessary waste of time. Such an undertaking, if well organized, creates the impression on the onlooker that the whole course of business runs as smoothly as clockwork. Moreover, all glaring colours and excessive noises are avoided—the floors and walls, the furniture equipment, and even the window curtains all being so chosen as to form a harmonious scheme.

Uniformity is achieved in such a way that the whole process of work is carefully and systematically arranged so that a definite kind of furniture or appliance is used for each particular task. The duties are delegated among the various members of the staff according to their individual capacity. Hence, each employee occupies his rightful place and knows precisely what he is expected to do—what kind of work he has to receive from the preceding worker, what he has to do with the work when he receives it, and in what form he has to pass it on to the succeeding worker. Although a thinking

individual, he resembles a cog in the wheel of a mighty administrative machine.

In a business organized on these lines, it is evident that nothing is devoid of significance or without some definite relation to the working process. The stool and the desk are no longer mere items of furniture on which work is executed, but they are auxiliary means for promoting the rapid and speedy dispatch of the work in the easiest possible manner. Hence it is essential that the chair or stool should facilitate the execution of work in comfort without unnecessary bodily fatigue, and the desks should be so arranged that all appliances are within easy reach, and all books and papers in constant use should be stored away in their allotted places in the desk or cabinet. In this way all unnecessary waste of time in searching for things will be avoided. The furniture should be uniform in design and of the same kind of wood, thus presenting a restful appearance to the eye. Where this is the case the various pieces of furniture in the different rooms may be interchanged, should it be thought desirable.

Duties of a subordinate nature are usually entrusted to the junior members of the staff and tasks of a mechanical nature are undertaken by machinery. Hence the most valuable labour power is liberated for the performance of the higher mental work. We will now take a brief survey of the most important auxiliary appliances used in the modern office.

### **FURNITURE.**

When furnishing the office standard pieces of furniture should be selected, that is, pieces of furniture which are stocked in definite sizes. These may be obtained in separate parts consisting of sections which may be built alongside or on the top of each other. Hence the furniture is always suitable for the purpose ; it is never too large or too small. Furniture which thus fits the room presents a pleasing appearance.

### **THE TELEPHONE.**

This instrument is now met with in every office of any size. By its means a business man is enabled to hold communication with any department of his business, and without leaving his desk he can maintain conversation with customers residing in any part of

the country, and even with those on the continent. In large offices, telephones are installed in each department, and direct communication from any department to the Exchange may be effected through the medium of a switchboard located in the telephone department.

A note should be made of all telephonic messages and should be delivered as soon as possible after receipt. Where the person concerned is absent, it is a good plan to write out the message and leave it on his desk, where he will see it on his return. To avoid misunderstanding, all important arrangements effected by telephone should be confirmed immediately in writing.

### THE DICTOGRAPH.

This is a time-saving device for enabling the controlling head of a business to maintain personal touch with all its departments. It consists of a master station—a box-like instrument, which can easily be accommodated on a desk. The master station is fitted with keys for each department, and when the executive head desires to speak with any department, or with a number of departments simultaneously, he merely flicks up the particular key or keys concerned. He is not under the necessity of requiring the services of a telephone exchange and operator, nor has he to speak into a mouthpiece or to hold a receiver ; all that he has to do is to speak in a conversational tone from any spot within 15 ft. of the dictograph. Those to whom he is speaking can answer him, and the machine can be so adjusted that those answers are audible only to the person controlling the dictograph. The advantages to be derived from being able to hold a conference with the heads of departments while each is in his department are obvious ; employees can be spoken to as quickly, easily, and freely if they are three buildings away as if they were in the same room.

### THE TYPEWRITER.

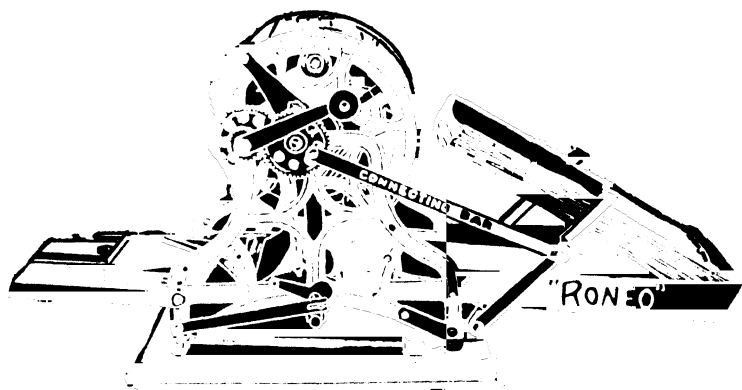
In modern offices the typewriter—at least in regard to correspondence—has almost entirely displaced handwriting. This success is due not merely to the uniformity and legibility of the writing but also to the fact that an experienced typist can turn out three or four times as much work as the expert writer. Moreover, the typewriter renders superfluous the use of the copying press

because it supplies a carbon copy for filing purposes simultaneously with the original letter. According to the thickness of the paper, good typewriters can supply as many as six legible carbon copies at the same operation. If, however, the original is typed on glazed paper with a *hectograph ribbon*, as many as fifty copies can be obtained by means of the gelatine or composition process. The original is placed face downwards on the damp surface of the gelatine and left for a few minutes. When it is removed a negative copy appears on the surface. Positive copies are then obtained by placing sheets of glazed paper on the negative and applying a roller. The gelatine is cleaned away after use by being carefully rubbed with a damp sponge, which removes the negative. It is also possible to write the original upon a wax sheet. This is a chemically prepared paper which is perforated by the type of the machine like a stencil. The stencilled sheet is then placed into a frame or on a drum, and an ink roller is applied in such a way that the colour penetrates the stencil sheet and appears on the underlying paper. In this way as many as 3,000 or more copies can be obtained from the same stencil. Thus the typewriter, to a certain extent, becomes a printing machine. Every good typewriter is in our days provided with a *tabulating arrangement*. This is a device which allows for the insertion of figures into any column without the use of the spacing bar. A further important auxiliary is the "billing system" which enables the typewriter to make entries in the books of account. In this case it is necessary to use loose-leaf books instead of the bound books. The preliminary condition for good typewritten work is, of course, efficiency on the part of the typist. A good typist does not strike the keys in a haphazard fashion but in accordance with the ten-finger method or the *touch system*. Under this system the eye of the typist is kept on the manuscript to be copied in the same way as the pianist looks upon the music and not upon the keyboard. Of course the keyboard of the machine must be of a standard type.

#### **INCOMING AND OUTGOING POST.**

To ensure that each incoming letter is properly answered and that the entries are made into the appropriate books of account, special precautions have to be taken. In the first place the incoming letters are opened by the members of the staff appointed for the

purpose, entered into a "Letters Received Book," sorted out and distributed amongst the various departments. Before distributing the letters an indication slip is attached to each letter showing what has to be done with it, and after each employee has attended to his portion he makes a note to that effect upon the slip. After the letter has passed through the various departments concerned, the office manager checks the slips to ensure that all instructions have been carried out, and the letter is then filed. The outgoing letters



THE RONEO DUPLICATOR

—carbon copies of which are made on the typewriter—are compared with the incoming letters by a controlling clerk, and another clerk enters the letters which have been signed into the postage book. Where necessary, carbon copies are sent to the book-keeping department where they serve as the basis for ledger entries. By means of the "Letters Received Book" and the "Postage Book" it can be proved at any time whether a certain firm has sent or received a certain communication. Moreover, the postage book serves as a check on the stamps advanced by the petty cashier.

#### MODERN COPYING CONTRIVANCES.

In those commercial undertakings which daily receive and dispatch hundreds or even thousands of letters, the old-fashioned copying press and letter book are no longer adequate. Their place has been taken by the copying machine which does away altogether with the messy process of damping sheets, water-baths, etc. The copying is done on a roll of paper which passes between the rollers

of the machine. This paper is specially prepared so that when it comes into contact with the original letter a perfect copy is imprinted on it. About twenty letters per minute can be copied by this process, resulting in a considerable saving of time. Up to half-a-dozen copies can be taken from one original. The process has the advantage over carbon work in that the signature and any alterations are exactly reproduced in the copy, and for this reason many firms have adopted this method of letter copying.

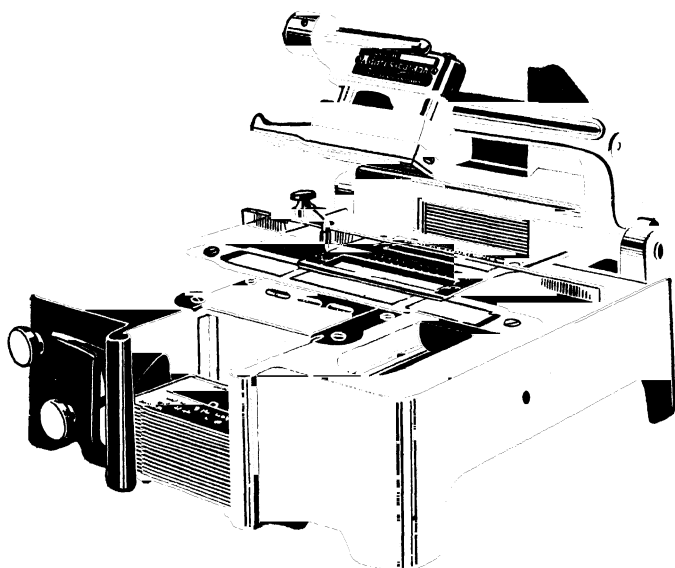
After the strip of paper has passed through the machine the copied letter is taken off and the strip of paper is dried. By means of a cutting contrivance the strip of paper is then cut into sheets, each of which contains a letter which is then put on a file. As a special file is used for every firm with whom there is a continual communication, it is possible to assemble all the incoming and outgoing letters of that particular firm in one folder. The question then is to keep all these folders in such a manner that they can easily be found. For this purpose a filing cabinet is usually kept. The various drawers of this cabinet and the files kept therein are arranged alphabetically so that at any time the correspondence of a particular firm can be consulted at a moment's notice.

#### **DUPLICATING MACHINES.**

A large amount of correspondence consists in sending the same communication to various persons ; this remark applies in particular to circular letters, price lists, quotations, etc. Sometimes a number of forms or detailed instructions are required for the works or office staff, and since these contain information of a secret nature it may be considered undesirable to send them out to the printers. Such documents may be printed or lithographed, but these methods are usually too expensive for the small business man. Hence a number of duplicating contrivances have been introduced within recent years, such as the Gestetner and Roneo duplicators, which enlist the services of the typewriter. (See page 39.)

In larger concerns it may be necessary to use an office printing machine. In this case the letter is set up in a flat compositor's tray or on a roller. The type is made to match the various typewriting types so that it is possible to procure for any typewriter the corresponding type for the duplicating apparatus. A coloured ribbon is run over the type and the paper is pressed on to the ribbon, thus

making a copy which, given a good apparatus and proper handling, cannot be distinguished from a typewritten letter. The addresses themselves are inserted on the typewriter, which contains exactly the same kind of ribbon as the duplicating apparatus. Office printing machines may be either flat or in the form of a roller. There are special machines for setting up the type, thus doing away with the tedious process of setting it up by hand. The copies can be taken off either by hand or by electric power. The Gammeter



THE ADDRESSOGRAPH

Multigraph has been technically improved to such an extent that, not only is the letter copied, but the letter-heading is also printed by the machine, and even the signature is affixed by means of an ink stamp.

#### ADDRESSING MACHINES.

These are employed in those businesses which frequently and at regular intervals send out a large number of communications to the same set of people. In one well-known system (the Addressograph) the apparatus required for this purpose consists of the addressing machine proper and the stamping machine. On the

latter the addresses required are first imprinted on small metal plates which serve as stencils. These plates are alphabetically arranged in the same way as the cards in a card index cabinet. When required they are put into the addressograph proper. This machine brings them, one after the other, into the position for printing, prints them on wrappers or envelopes so that they have the appearance of typewritten addresses. The work of addressing by this method proceeds much more rapidly than by hand.

It is possible to arrange the plates in manner desired. After the plates are thus prepared and it is desired to print a certain group of addresses, the addressograph automatically throws out, by the aid of a certain mechanism, all those addresses which are not to be printed.

### **PITMAN'S SHORTHAND.**

In conjunction with the typewriter, Pitman's Shorthand is of the utmost value in a modern office. The shorthand writer must be able to make verbatim notes of any matter which is dictated to him, and afterwards transcribe them into longhand by means of the typewriter. In this way nearly all correspondence is undertaken nowadays. This system of shorthand can be speedily written and easily transcribed.

### **DICTATING MACHINE.**

This is an application of the phonograph, since it records the sounds made by the human voice and afterwards reproduces them. The dictator of the correspondence speaks into a tube which fixes the words on to a cylinder by means of a membrane, and there are contrivances which render it possible to stop dictating at any moment. The machine will also repeat the conversation in the event of the user wishing to have the dictation repeated. There is an arrangement, too, by means of which corrections may be made in the dictation. The words spoken into the machine may be repeated as often as necessary. However, practice shows that the use of the dictating machine is not always possible, or advantageous.

### **FILING SYSTEMS.**

The aim of the filing system is the keeping in order of all correspondence, including invoices, statements, and other

documents so that they may be referred to without any loss of time.

There are several modern systems of filing which may be divided into two main groups according to the principles on which they are based, viz., the flat filing system and the vertical filing system.

(a) **The Flat Filing System.** Under the flat filing system all incoming letters and documents are placed away flat in a file which usually holds about three hundred letters, arranged alphabetically according to the name of the sender. The back of this file is fitted with a mechanical arrangement to keep the correspondence in place. There are numerous makes of these files, which have more or less the same advantages since they are all based on the same principle, and are distinguished from each other merely by the mechanical arrangement for holding papers in their place. The best known flat files are the Shannon and the Pilot, which may be taken as typical of the whole system. The letters of a firm are placed on the top of one another in such a manner that the letter last received is on the top. In cases where the outgoing documents are not copied into a bound book but copied on loose leaves, the latter are likewise put away into a file in such a manner that the incoming letter and the reply to it are placed next to each other.

In accordance with the extent of the correspondence, a larger or smaller number of files have to be used simultaneously. Even the smallest business firms must have at least two files, each embracing half the alphabet. The greater the number of letters received daily, the fewer the letters of the alphabet that can be ranged in the same file ; and we thus come to the point that a separate file must be used for each letter of the alphabet or even more than one file for the same letter. If all the incoming letters were placed in one single file, in a large firm, this would be filled in a very few days, and the correspondence with a certain firm for that reason would be split up into too many files, thus making the reference to it much more difficult.

(b) **The Vertical Filing System.** This is now the recognized system for caring for all papers in a modern business office. The simplicity and economy of its operation, and the speed with which any letter, invoice, order, or document may be produced, have been demonstrated to such an extent that most up-to-date concerns have introduced this system of filing.

The chief methods of filing under this system are—

1. *Direct alphabetic filing*; by name, as if arranged for a city directory. This is the most direct method of finding and filing correspondence.

2. *Numeric filing*; i.e. by assigning arbitrary numbers to each firm or subject. This method ensures the greatest accuracy and is a virtual necessity where the subject-matter requires much cross reference.

3. *Geographic filing*; i.e. according to the names of the towns

The illustration shows a series of filing folders arranged in a row, labeled with town names: **YORKS**, **Leeds**, **Doncaster**, **Bradford**, and **Halifax**. The **Bradford** folder is open, revealing a form with the following handwritten entries:

|                      |     |             |             |                      |     |             |             |
|----------------------|-----|-------------|-------------|----------------------|-----|-------------|-------------|
| <b>TOWN</b>          |     |             |             | <b>COUNTY</b>        |     |             |             |
| Bradford             |     |             |             | Yorkshire            |     |             |             |
| <b>NAME</b>          |     |             |             |                      |     |             |             |
| Bakewell & Wilson    |     |             |             |                      |     |             |             |
| <b>BUSINESS</b>      |     |             |             | <b>DISCOUNT</b>      |     |             |             |
| Hardware             |     |             |             | 22 1/2 %             |     |             |             |
| <b>DATE OF ORDER</b> |     | <b>Book</b> | <b>Page</b> | <b>DATE OF ORDER</b> |     | <b>Book</b> | <b>Page</b> |
| Month                | Day | Year        |             | Month                | Day | Year        |             |
| Oct                  | 10  | 16          | 142         |                      |     |             |             |
| Nov                  | 8   | .           | .           |                      |     |             |             |
| Feb                  | 17  | 07          | 48          |                      |     |             |             |
| May                  | 15  | .           | 49          |                      |     |             |             |
| Dec                  | 20  | .           |             |                      |     |             |             |

ILLUSTRATION OF GEOGRAPHIC FILING

or districts. This method is suitable where territorial grouping is of chief importance.

The vertical filing system is based in principle on the fact of having a separate folder for each customer or subject. The manner in which the folders are arranged in the file is immaterial. Solicitors, for instance, collect together in the same folder all the documents referring to a particular case.

Since a separate folder is used for each correspondent, both the inward letters and the carbon copies of outward letters to each firm are placed in their respective folders in the order of date.

In some large firms and Government departments a double sheet of foolscap-size cartridge paper or linen-faced paper is used instead

of a folder, and the papers are arranged and kept in their proper position by means of a short tag which is inserted through a hole in the top left-hand corner of the cover and the papers.

It must be left to each individual undertaking to decide whether the alphabetic, numeric, or geographic method of filing is the best. Mail-order businesses, possessing a large number of customers but very few permanent ones, find it to their advantage to arrange their correspondence according to the names of the towns or localities where the customers reside, i.e. geographically, instead of arranging them directly under the customers' names.

In the vertical filing system the equipment consists of alphabetic guides with their tabs or projections at the left. Next in order are the wide tab folders for individual names of active correspondents, and lastly are the tab folders at the extreme right of the drawer for miscellaneous or infrequent correspondence. The individual folders, one for each concern or subject, with name and address, or subject, etc., typewritten direct or upon a gummed slip pasted to the tab, are arranged behind the proper guides in exact alphabetical order. Thus the folders behind the B guide card will be those of firms whose names begin with B, whilst on the projecting tabs will be written the name of each firm for whom a folder has been prepared.

The drawers of files under this system are kept in a cabinet, so that they practically represent a library, and the contents of each drawer is plainly marked on the front thereof.

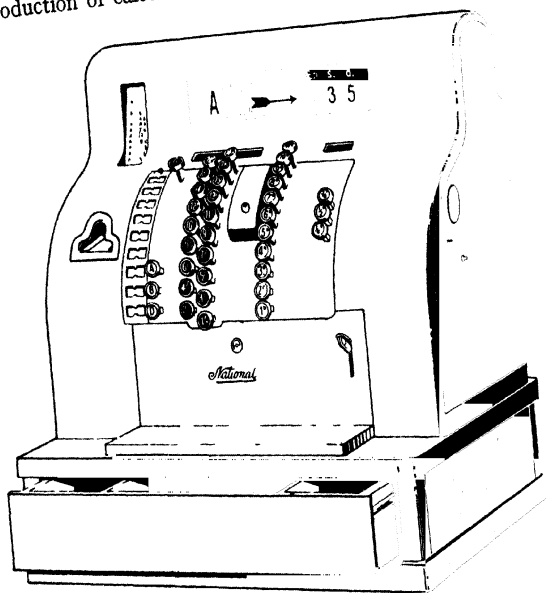
### THE CALCULATING MACHINE.

One of the most ingenious inventions of modern time is undoubtedly the calculating machine, by the aid of which we can execute simple arithmetical operations with mathematical accuracy and great rapidity, such, for instance, as additions, subtractions, multiplications, and divisions. Although these machines are rather expensive, they are gradually gaining ground in the business world; for they not only involve a great reduction of labour and advantages for the calculating staff, but they also yield absolutely accurate results.

In large retail businesses an adding machine, in the form of a *cash register*, is frequently found which serves to check the cash receipts. This machine not only gives a receipt for any moneys

put into the till, but it also writes automatically on a continuous strip of paper the items of the amounts inserted and their sums so that the principal, in the evening after closing time, can read off the total amount of the day's receipts and can compare it with the actual cash in the till.

Within recent years radical changes have taken place through the introduction of calculating and duplicating machinery. These

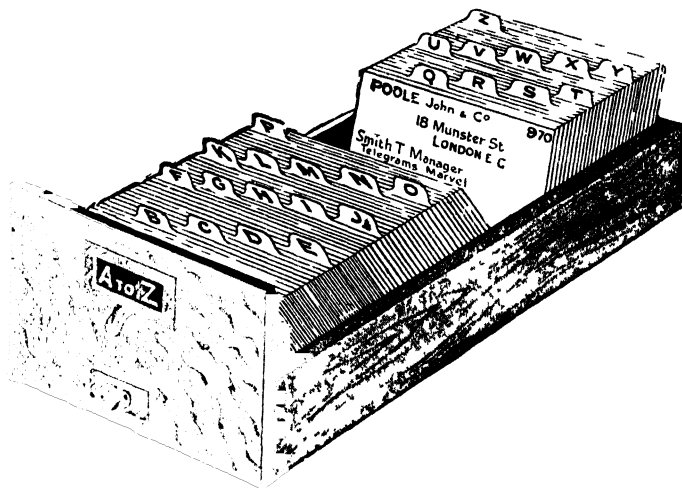


THE NATIONAL CASH REGISTER

machines were originally useful for rendering rapid statistical summaries to the principals of businesses at short notice; but in large firms these machines are increasingly coming into use for the keeping of individual customers' accounts on a loose-leaf and duplicator system. For the operation of some of these machines both intelligence and general knowledge are required. With the consequent elimination of much of the old-fashioned routine copying and accounting, the possession of a good standard of education and efficiency by junior clerks has never been so important as it is to-day.

### THE CARD INDEX SYSTEM.

A veritable revolution has been wrought in the modern office by the introduction from America of a device known as the "Card Index," which is increasingly employed in this country. In the main the card index system consists in the fact that certain business records are no longer entered in bound books, but on cards which are kept in the office in large numbers and of the same size, but of



CARD INDEX SINGLE DRAWER

different colours according to the purpose for which they are used. Each card has a hole perforated in the centre so that it can be placed on an iron rod which is fixed in a small cabinet. This rod can be turned, and according to how it is turned the cards can either be taken out or else firmly fixed to the rod. The cabinet usually accommodates about 1,000 cards, and may be locked. Between the cards there are guide cards of different colour, and of a somewhat larger size, on which are written certain indexes, such, for instance, as the letters of the alphabet, which refer to the names of the persons on the card immediately following. As the cards are filed away in strictly alphabetical order it is easy to trace any particular card.

At first this system was employed in libraries, each card containing the full description of the book to which it referred and

indicating the place where the book could be found. In recent times the system has been thoroughly developed and has found numerous applications in offices. Thus a trader may keep a register of his customers arranged on this system ; after writing their particulars upon a card he files it away according to the street or locality, or in any other method he chooses. He may also keep a card index for his creditors ; and any information he receives concerning the status of his customers may likewise be arranged on this plan.

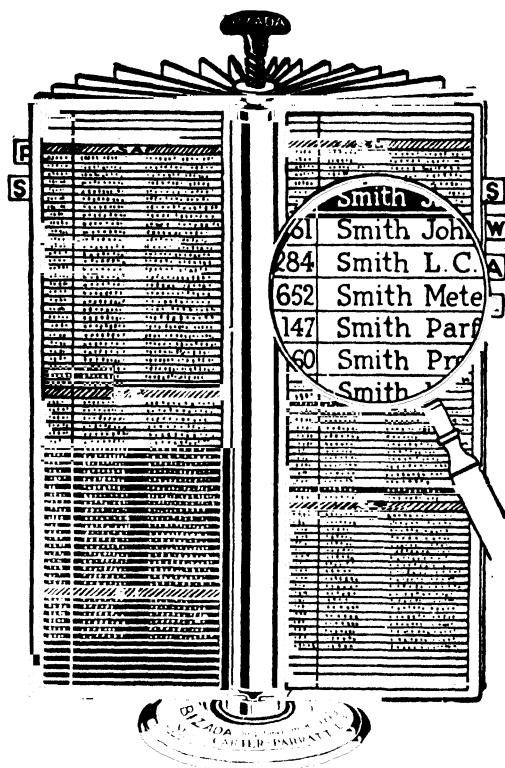
A business with numerous outstanding debts registers each outstanding debt upon a card, files away the card according to the due date so that the principal can see every day what amounts are expected to fall due and can make the necessary dispositions. In a similar manner a register of payments falling due may be introduced. The person in charge of the bills of exchange portfolio can be checked by means of a card index. A card is made out for each bill of exchange and is then filed away according to the due date. The file is then placed in charge of a second person. In this manner it is possible to check with accuracy the work of the bills' clerk.

A person dealing in such articles as carriages, furniture, clocks, pianos, animals, etc., may make out a card for each article received into stock on which he inserts the necessary particulars, such as the buying and selling prices ; when the article is sold, the name of the purchaser, the price, and the date are entered on the card, which is thereupon filed away in another drawer. Each article passing through the business is thus represented by a card, and one drawer of the cabinet may represent the record of the goods in stock, whilst another may represent the goods sold. By means of the former, stock may be taken at any moment and a check kept on the goods in the warehouse, whereas the latter furnishes particulars for the entries which have to be made in the sales book.

The card index system also enjoys a wide application in factories, but it would lead us too far to enter into a description of the thousand forms in which the system is employed.

The card index possesses great elasticity as compared with bound books. It does away with the necessity of leaving empty pages and the carrying of dead matter. Old cards may be removed and new ones may continually be placed in their position. It is also possible for several employees to work simultaneously under

the card index system so that work is accelerated. If one wishes to find any entry in a bound book a special index must be kept, whereas the card index, with its guide cards, constitutes an index in itself. As a result of these advantages the card index has



THE BIZADA

almost everywhere taken the place of bound books. It is used for all sorts of purposes where classification is essential.

The card index, however, has two pronounced disadvantages. The first of these is that only one card can be seen at a time, which means that it is often the work of several minutes to find a name, even if it is in its proper order. The second disadvantage is that it is easy for a card to be misplaced, with the consequent loss or duplication of records.

The *Bizada* has been introduced to overcome both of these

difficulties. It is a card index with many cards visible at the same time. Reference can be made in considerably less time than with the ordinary form of card holder or cabinet. Additional entries can be made without removing the cards from the holder, thus eliminating the risk of misfiling or loss.

The Bizada consists of a stand upon which are hooked metal frames which are fitted with grooves into which the edge of the card are inserted. An illustration of the upright revolving pattern is shown on page 49. For purposes where it is desirable to keep the records under lock and key, steel cabinets have been produced.

### **LOOSE-LEAF BOOKS.**

Attempts have been made to introduce the elasticity of the card index into the system of bound books. This has been attained by the invention of loose-leaf books, the various pages of which are provided with holes or perforations on the left-hand edge. These holes are penetrated by screws or rods which are fixed in the back of the cover and which can be opened or closed with a key. When the book is locked, the pages are firmly bound together between the covers, and may be turned over as in an ordinary bound book. If, however, one wishes to remove a page or to insert a new one the book must be unlocked. The advantages of "loose-leaf books" are thus similar to those of the "card index system."

### **EFFECTS OF THE INSTALLATION OF OFFICE MACHINERY AND APPLIANCES.**

The employment of office appliances aims at the rendering of the office work more economic. The execution of the various tasks is calculated to proceed more quickly, more accurately, and more carefully, and thus to save in staff, and in general to raise the efficiency of the business. If the machines are properly selected and applied, these aims will undoubtedly be obtained. The sceptical attitude which was formerly assumed towards these devices has proved unjustifiable. Nowadays a very large number of businesses employ office machinery with the greatest success. The requisites for complete success, however, are the careful introduction of these machines as an integral part of the mechanism of the business and the adaptation of the working processes to treatment by machinery; that is, the course of work must be split up or organized into its various constituents and then

mechanized. It is then the function of the machine or appliance to carry out the various operations. The machinery or appliances must not be looked upon as auxiliaries which are intended for occasional use, but their insertion into the organization must be such as to render their employment indispensable in the carrying out of the daily tasks. It is only where the members of the staff are compelled to employ such labour-saving devices that the full effect of the increase in efficiency can be quickly reached.

#### TEST PAPER 4

1. In what respect does the proper lay-out of a modern office tend towards the increased efficiency of the staff?

2. What points would you observe in choosing the furniture for a new office? Would your answer be different if you were re-furnishing an old office?

3. Describe the functions of the telephone as an auxiliary to the trader.

4. What is the function of the dictograph in modern business organization?

5. Describe the procedure usually adopted in a large office for dealing with the incoming and outgoing post.

6. Write brief notes on the following, viz.—

- (a) The use of the typewriter;
- (b) The rotary letter copier;
- (c) The postage book;
- (d) The Gammeter multigraph;
- (e) The dictating machine; and
- (f) The cash register.

7. Give an account of the various devices for the multiplication of documents.

8. What is the use of the addressograph?

9. What do we mean in office routine by the term "filing"? Enumerate the points by which you would judge whether a filing system was an efficient one.

10. Explain the uses of the flat and the vertical system of filing. Which do you prefer, and why?

11. Describe the card index system, and mention two forms of its application.

12. What, in your opinion, is the effect of the introduction of machinery and appliances into the office?

13. A business man, in his morning's post, found (a) an invoice marked at the foot "E. & O.E.," (b) an invitation card with "R.S.V.P." in the corner, (c) a cheque returned by the Bank marked "R/D.," (d) a quotation for an electrical installation from a Mr. Tom Bevan, whose name was followed by the initials "M.I.E.E.," and a letter from an architect, whose name was followed by "F.R.I.B.A." What do all these abbreviations mean?

## CHAPTER V

### WORKING-UP THE BUSINESS

AFTER the newly-established business has been suitably equipped—in the process of which the trader will have scope for the exercise of his ability and experience—the actual work of opening the business will next be undertaken. This consists in the execution of the necessary legal formalities and the carrying on of suitable propaganda.

#### LEGAL FORMALITIES.

In this country a man may trade under any name he chooses, provided he does not choose a name which would injure someone else—for example, by fraudulently inducing people to confuse his business with a pre-established one. But in accordance with the Registration of Business Names Act, 1916, a trader who is carrying on an undertaking under an assumed name must register his true name with the Registrar. Thus, in the case of a sole trading concern, the full christian and surname of the trader, together with his nationality (if foreign) must be disclosed. Similar provisions also apply to a partnership concern.

If there is default in registration the trader cannot sue on any contract entered into while he is in default, unless the court grants relief against the disability.

It is also provided that such registered concerns must publish particulars of the names and nationality of the members in their trade catalogues, trade circulars, show-cards and business letters.

#### ANNOUNCEMENT OF THE OPENING OF THE BUSINESS.

After the trader has executed the necessary legal formalities, his next step is to announce the opening of his business. This may take the form, in the first place, of a personal appeal among the trader's own friends and acquaintances. This he may effect by means of a circular, which he will also send to likely customers. In sending out circulars it is advisable to have the printing done well and on good paper. An easy and natural style should be adopted in the wording of the circular, which should read like a personal appeal from the trader to prospective customers inviting

them to favour him with their patronage. A typical circular would take the following form—

CIRCULAR ANNOUNCING THE OPENING OF THE BUSINESS

J O H N T A Y L O R ,  
OUTFITTER,  
High Street,  
Cardiff.

20th March, 19-

Dear Sir (or Madam,)

I beg to inform you that I have just taken over the business of my uncle, Mr. James Phillips, which he carried on for many years at the above address. I am therefore writing to solicit the continuance of your patronage and to inform you that any orders you may entrust to me will receive careful and prompt attention.

I am bringing to the business a practical experience of the trade in its various branches. As each department will be under my personal supervision, I have confidence in appealing for your support, and trust you will favour me with an early opportunity of proving that your esteemed orders can still be discharged as satisfactorily as they have been in the past.

Again assuring you that your orders will at all times receive my best attention,

I am,

Yours faithfully,  
JOHN TAYLOR.

A further means which the trader should adopt to announce the opening of his business is the insertion of an advertisement in the local Press. This is the most potent instrument of publicity,

and no tradesman, however small his business, can afford to be indifferent to the enormous influence wielded by the newspaper in gaining public attention and support.

### **WORKING-UP THE BUSINESS.**

With the opening of the business begins the trader's struggle for existence against all those who have chosen the same line of business. The more familiar the business man is with the nature of this conflict and its weapons, the better will be his chances for the successful development of his undertaking.

There is competition everywhere in life ; wherever we look we find a larger or smaller number of men striving towards the same goal, whether it be for power, honour, or economic advantage. There is competition amongst pupils in school, amongst municipal officials, amongst medical men, lawyers, artisans, and last, but not least, amongst members of the commercial world, whether they be employers or employed. Liberty and equality before the law are the primary conditions for the existence of free competition, which implies the absence of all checks to the unimpeded action of individual self-interest in all economic dealings. Competition lets loose the economic forces of humanity, but unfortunately, not only those that are good, but also those that are bad. In business life competition asserts itself in the procuring of capital and in the renting and purchasing of business premises, as well as in the purchase of raw materials and finished goods. But it manifests itself most strongly in the sale of goods. When it comes to selling, every trader has to reckon more or less with competition. Sometimes it is a matter of permanent competition, sometimes only a matter of occasional or temporary competition. Among permanent competitors must be included not only those at home but also those abroad. Retail shop-keepers have to compete with the mail-order businesses, multiple shops, retail travellers, and hawkers. Among temporary or occasional competitors are included fairs, markets, auctions, and periodic clearance sales.

### **ADVANTAGES AND DISADVANTAGES OF COMPETITION.**

Competition is two-sided : it benefits the one party, but it hinders and sometimes even ruins the other. In general, competition may be said to abolish indolence and it acts as an incentive to progress ;

sometimes it renders insecure positions which have come to be regarded as safe for life. It deprives many of the fruits of their labours, and at times leads to extraordinary situations in economic affairs, such as arise in the various forms of unfair competition. In the long run competition inevitably brings to the top the strongest men who take up business—the men who know most about the principles of business and are most skilful and energetic in applying them. From the standpoint of the community, competition must therefore not be destroyed, but it ought to be controlled by the State to keep it within reasonable limits. The complete abolition of competition would make it unnecessary for a person to be as industrious and skilful as other people, and it would also deprive the customer of various benefits.

Competition is particularly keen in those commercial undertakings for which little capital and knowledge are necessary, but which, with hard work, promise an independent subsistence. With increasing capital requirements of the undertaking, and increased demands upon the training and capacity of the directive persons, competition assumes *ipso facto* a smaller significance. In small retail businesses competition is therefore most severe. There are a great many people who crowd into the retail trade either with insufficient knowledge or an inadequate amount of capital. The inefficient are usually those who ruin prices most—a remark which applies equally to inefficient employees, who are usually ready to work for the lowest wages.

### REGULATION OF COMPETITION.

The means by which competition is waged are of a manifold character, and unfortunately they are not always fair. This is due primarily to the varying degrees of honesty and business morality. The law has suppressed many of the practices which are regarded as unfair, but there is room for further legislation to protect both the honest trader and the general public. Among the attempts which have been made to regulate unfair dealings may be mentioned the following—

1. The Food and Drugs Acts, which help to prevent the sale of unwholesome or adulterated goods; the regulation of the pharmaceutical chemists' trade, including the sale of medicines, poisonous drugs, and the sale of explosives.

2. The Moneylenders Acts, which aim at the protection of the financial interests of the ignorant.

3. Regulations concerning the trade of the pedlar and similar dealers.

4. Legal protection against the unfair appropriation of the personal rights of competitors, and the deception of the public by means of fraudulent advertising with the object of acquiring customers. In England the law protects the firm name, and special Acts have been passed for the protection of patents, patterns, and trade-marks.

### PATENTS.

A patent is a grant by the Crown to an inventor giving him the privilege, for a limited period, that he alone shall be entitled to make articles according to his invention. The law as to patents is contained in the Patents Act, 1907, as amended by the Patents and Designs Act, 1919. The procedure for taking out a patent is briefly as follows : A form of application and a statutory declaration form must be obtained from the Patent Office, and when completed, these forms have to be lodged with the Comptroller of Patents, Designs, and Trade-marks. With them is sent a "specification" (which describes the nature of the invention) and any necessary drawings or specimens. If the invention complies with the general requirements of the Patent Acts, and the provisional specification is satisfactory, the application is granted and the patentee is protected for six months. By the end of that time a complete specification must be submitted, and it must conform to the claims as set out in the provisional specification. A further examination takes place, and search is made at the Patent Office to see if the invention has been claimed at any time within the past fifty years. If all requirements are fulfilled satisfactorily, then the patent is accepted and immediately published. Opposition to the grant of the patent may be made by the public at any time during the ensuing two months. The patentee initially pays a fee of £5, and this covers a period of four years. At the end of that time £5 must be paid to maintain the rights to the patent for the fifth year, then £6 for the sixth year, and so on up to the sixteenth year. Thus the patent is granted for sixteen years from the date of the application.

An extension of time (up to an additional ten years) may be obtained by a petition to the High Court.

In the event of an infringement, the patentee can sue for an injunction to prevent further interference with his rights, and for damages.

### **PROTECTION OF TRADE-MARKS.**

A trade-mark is any particular mark, signature, or device used upon or in connection with goods for the purpose of indicating that they are manufactured or dealt with by a particular person or firm. The law relating to trade-marks is now contained in the Trade-Marks Acts, 1905 and 1919. To obtain the right to a trade-mark proof must be forthcoming that a particular trader has been using a certain mark and that the mark has been impressed upon goods, so that the public understand from this indication that the goods are those of this particular trader—either goods manufactured by him or selected by him, or goods which in some way pass through his hands in the course of trade. A trade-mark then becomes part of the goodwill of the trader's business, and he will be protected against any use of his trade-mark which it is reasonable to suppose will deceive the public. The protection is afforded not only as a matter of justice to the trader, but also to prevent imposition on the public.

### **THE PROPAGANDA.**

The term "propaganda" has a very wide meaning. It signifies the endeavour to arouse public interest in persons or in things for the furtherance of certain aims. Where the aim of propaganda is the working-up of a business, it is known as "commercial advertising." In this sense it is concerned with the acquisition of customers. The methods of acquiring customers differ with the nature of the business, but in general they are confined to the business premises, the goods and their "get-up," the salesmen, and the advertisements.

1. **The Business Premises.** The external appearance of the business premises may act as a means of attraction to the customers, for they are usually taken to be a kind of reflection of the business spirit which prevails therein. The solid and massive building of a banking business is supposed to witness to the reliability and power

of the bank, and the leading departmental stores lay great stress upon a pleasing architectural style. A neatly executed and easily read sign visible from a distance usually indicates the name of the business. The display of the windows—a matter which calls for good taste and experience—must arrest the attention of the passers-by and induce them to inspect the wares therein. In this respect it must be remembered that it is not the indiscriminate piling up of a mass of goods which attracts, but their artistic arrangement from the standpoint of shape and colour. In order that numerous articles may be displayed at the same time, the windows of a modern business are constructed on a large scale with plenty of accommodation, for the goods which can be seen are the first to find customers.

The interior of the business premises should conform to their external appearance—a remark which applies particularly to retail shops. On the principle that the customer wants to see first what he is going to buy, the goods must be so arranged that they can be easily surveyed. Novelties should be given a specially prominent place.

**2. The Goods and Their "Get-up."** An American business man gives the following advice: "Entice people into your shop by all means, but once you get them inside offer them something really good." This advice is based on the true appreciation that only reliable goods will maintain a permanent connection. The goods alone, however, do not always suffice to attract customers, but they must also be displayed in a tasteful "get-up." A pleasing wrapper makes an impression upon the mind, and in the case of a repeat order may frequently serve as the only clue if the name of the manufacturer has been forgotten. The same end may also be achieved by the use of a conspicuous trade-mark or a well-chosen trade name for the goods.

**3. The Salesman.** In many cases the skill of the salesman is the most effective means for the acquisition of customers—whether it be the assistant in the retail shop or the traveller of the wholesale firm soliciting an order in the shop of a customer. Since both of them represent the business to which they belong, the principal naturally lays great stress upon a demeanour suitable to the standing of the establishment. An attractive speech and good manners on the part of a salesman exercise a great influence on the customer.

A salesman with an offensive or impatient manner has evidently chosen the wrong calling. The external appearance of the salesman, too, is of great importance. He must be neatly and cleanly dressed ; indeed, some businesses insist upon the wearing by their various male or female salesmen and saleswomen of a special kind of dress, which gives the business a special impress. In a similar way a certain demeanour is expected of the traveller. In connection with many departmental stores, schools have been established for the training of salesmen and saleswomen. The course of training includes everything which seems to be necessary for those who choose salesmanship as a profession.

4. **Advertisements.** A distinction may be drawn between *direct* announcements which are dispatched in the form of printed communications, such as price lists, trade reports, invitations to view, advices of the visit of a traveller or the opening of a business, and *indirect* announcements through newspapers, periodicals, calendars, railway time-tables, posters, etc. Both these forms of advertisement have their respective advantages. The direct announcement may be preferred because of its more personal appeal, although the indirect announcement has a wider circulation and newspaper advertising has developed into one of the most effective means of propaganda. The skilful utilization of newspaper advertising is an art which increases in difficulty with the more general employment of this form of advertising. If the advertisement is to be effective it must be conspicuous—an end which may be achieved by the form or the contents of the advertisement. In drafting an advertisement there seems to be no limit to the exercise of inventive genius, and effect may be obtained in a variety of ways, such as the employment of large or special types, conspicuous position in the newspaper, suitable illustrations, or the use of a slogan. In all cases, however, the advertisement must be brief and to the point, pleasing in form and true in substance. Other factors of importance in successful advertising are the choice of the medium, the time of its appearance, and the frequency of the insertion.

It is natural that the trader should wish to control the result of every form of propaganda. For this purpose various means are employed. Thus, some advertisers ask those readers who enter into communication with them to refer to the paper in which the advertisement appears. Others try to arrange the matter

in such a way that the readers unconsciously indicate the paper in which they have read the advertisement. With this object in view the firm advertising adds to its address a certain figure or letter which the readers then place on the address because they imagine it is the completion of the address. For instance, if the address is 10 King's Street, Leeds, in the advertisement it is given as 10a in one newspaper and in others as 10b, etc. When the orders or inquiries are received they are classified accordingly, so that the result of the advertisement can easily be seen.

In most large towns there are now advertising specialists or agencies who are willing and ready to supply expert advice to business people.

#### TEST PAPER 5

1. If you were starting a business, what economic, legal, and personal requirements would have to be fulfilled?

2. Draft a circular announcing the opening of a new business.

3. In what other ways may a trader announce the opening of his business?

4. What are the forms of competition with which a trader has to contend?

5. Do you consider the existence of competition to be good or evil? Give reasons for your answer.

6. Mention any attempts which have been made by the State to regulate unfair competition.

7. Write short notes on three of the following, viz.: Patents; trade-marks; the taking out of a lease; the Registration of Business Names Act, 1916.

8. Explain the meaning of the term "Propaganda." How does it differ from "Commercial Advertising"?

9. Show the part played by the following in the acquisition of customers—

- (a) The business premises;
- (b) The "get-up" of the goods;
- (c) Salesmen.

10. Distinguish between direct and indirect announcements in advertising. What are their respective advantages?

11. Enumerate three factors of importance in successful advertising.

12. You have been for six years with a large firm of meat purveyors—Messrs. Grey & Sons of Cardiff,—and are now opening for yourself a business in meat and meat products. Your experience as buyer for Messrs. Grey & Sons has given you practice in choosing the best products, and you intend to sell at such a price that profit will be cut down to the lowest margin. By close personal attention and courtesy to all, you trust to secure a share of patronage. Write a circular calculated to bring customers to your shop.

13. Give the usual abbreviations for the following: Refer to drawer; money-order office; the 16th of last month; 5 per cent per annum; secretary for the time being; place of the seal; bachelor of commerce; Northamptonshire; Fellow of the Institute of Chartered Accountants.

## CHAPTER VI

### GENERAL PRINCIPLES OF BUYING

THE person who selects and purchases goods for retail sale on behalf of his firm is known as the *buyer*. It is his business to interview travelling representatives of manufacturers or wholesale merchants and to pay visits to market centres. In large departmental stores, he usually buys for one department only, under the supervision of the general manager.

#### THE BUYER AND HIS WORK.

Whatever the nature of the goods to be purchased, it is essential that the buyer should possess a thorough knowledge of the particular line of goods in which he is engaged, together with an absolutely safe judgment respecting their source of origin, suitability, value, get-up, and finish. Success in this work can be achieved only after pursuing a well-directed course of training combined with many years of practical experience.

The first real testing of a business man's qualifications comes with the purchasing of stock. Provided he has money he will encounter no difficulty in getting what he wants ; but to form sound judgments of what is necessary, and then to make wise selections on the strength of his estimates, demands very keen discrimination. It is not easy when starting a new business to determine what amount of capital should be put into it. Where unrealized results can only be a matter of speculation, no rule can be formulated of the relation the value of the stock should bear to the turnover. In such cases, however, it is always wise to begin with a small stock consistent with the trader's legitimate and reasonable expectations, and to leave room for extension as soon as the trade justifies it. Every purchase calls for systematic treatment which involves the careful estimation of future demand. A useful basis for this estimate is furnished by a tabular survey of the turnover in the form of statistics. A preliminary estimate of the stock required may be obtained from a consideration of the turnover for the corresponding period of the previous year, taken in conjunction with the wishes or complaints of the customers, and any alteration in their

financial circumstances. The successful introduction of new articles depends largely on a precise knowledge of the customers' tastes. Moreover, the trade should keep a sharp look out for every favourable opportunity such as might be presented by the holding of an exhibition in the locality, or by any other unusual assembly of people.

Thus the art of buying, which has its basis in the proper estimation of demand, also includes the judicious selection of goods as well as the purchase of them at a favourable price. When considering the price, it is necessary to ensure that a proper relation exists between the price and the quality of the goods, the purchasing power of the customers, and the general position of the business. The tastes and demands of the customers must determine the nature and quality of the stock selected, which should be so chosen as to afford permanent satisfaction to the customers.

#### **BUYING IN RELATION TO TURNOVER.**

The natural endeavour of the trader is to realize the largest amount of profit from his business. This profit results from the margin between the purchase price of the goods, inclusive of all expenses incurred on them, and the selling price after deducting any loss of discount and other allowances connected with the payment. This principle, however, is not unreservedly true, otherwise it would be the trader's sole endeavour always to buy as cheaply as possible and to sell as dearly as possible ; that is, he would strive to increase the margin between the buying and the selling price. Hence, this statement calls for some modification.

Let us assume, for instance, that A buys 1 cwt. of a certain commodity at 10s. per lb. and resells it at the end of a month at 12s. per lb. He thus makes a profit of 224s.

Another trader, B, buys 2 cwt. at 10s. 3d. per lb. and resells the whole quantity within a month at 11s. 9d. He thus makes a profit of 336s.

Finally a trader, C, buys 2 cwt. at 10s. 5d. a lb. and turns over this quantity twice within the month at 11s. 8d. per lb., thus making a profit of 560s.

A has the highest marginal profit ; although B has a smaller marginal profit he has a larger turnover ; while C turns over the same quantity as B twice within the same period and thus beats

both of them in the rapidity of his turnover. In spite of the fact that C realizes the smallest margin of profit per lb. he obtains the highest ultimate profit.

Thus, the ultimate profit of a business depends not only upon the margin of profit per unit of commodity, but also upon the size and the rapidity of the turnover. A trader who recognizes this principle in his business safeguards not only his own interests but also those of the community. The fact that C pays a slightly higher price for his goods and sells them at a lower price enables him to increase the speed of his turnover because he is better able to find supplies and to obtain a larger market for his goods. In the last resort his attempt to increase the turnover will resolve itself into a struggle for customers: for the number of consumers, as well as the available supplies within a given period, are not quantities which can be increased at will. A further postulate for the increase of the turnover is the existence of an adequate amount of capital with which to purchase a large quantity of goods. Of course it is possible to obtain a higher profit from the business with the same amount of capital by speeding up the turnover. This can be seen from a comparison of the activities of B and C in the above example. C obtains a higher profit than B owing to the rapidity of his turnover, and this in spite of a smaller margin of profit. If he sold at the same price as B his total profit would, of course, be still greater, but it is probably due to his lower selling price that his turnover is larger than that of B, and to this fact is due the resulting increase in the magnitude of the turnover. Hence he will probably adhere to the lower price. C is almost forced into this reduction of price by the resulting speeding up of the turnover. Even if he calculates the interest on capital, the cost of warehousing and other general expenses as monthly percentages of the turnover, he will come out with a smaller percentage than B; that is, his overhead charges per cent will be smaller than those of B. The interest upon the capital invested remains the same whether it be turned over once or twice within a given period, and the cost of warehousing also remains the same whether a certain quantity of goods passes through the warehouse once or twice within a given period. The influence of the duration of the warehousing period on the success of the undertaking will be dealt with in a subsequent chapter. Here we shall consider the main factors in buying, the

study of which is to be recommended with a view to increasing the turnover.

### MAIN FACTORS IN BUYING.

In buying, the trader has to take into consideration the quantity, the quality, and the price of the goods to be bought.

**The Quantity.** This will vary with the capital at the disposal of the trader and also with his anticipated requirements. If he buys beyond his needs he acts contrary to the principle of speeding up the turnover of his capital. He will accumulate dead stock, and in this way he will waste his warehousing expenses and his interest on capital. Of course it is very difficult to estimate the turnover of goods in advance if there is no basis for such an estimate. A basis, however, is supplied by keeping statistics of turnover which may be compiled from the old invoices for incoming goods; from these it may be seen what quantities of the various goods were purchased in previous years. It is better, however, to keep continuous records of the various articles and to summarize the figures monthly. The total monthly amounts with their fluctuation may be represented by a curve which furnishes a clear picture of the annual fluctuation of the turnover. Lists of dead stock or of slow selling lines, drawn up graphically at regular intervals, help to supplement the figures of turnover. Moreover, all goods should be marked with their date of entry into the business, and if unsold after a certain period, they should be included on the list of dead stock. In this way a business man obtains his records for the estimate of his requirements, and on this basis he can order his goods, presuming that the customers remain approximately the same. A comparison of several years will enable him to calculate the average quantities, which is even more useful. This method, however, is not applicable to new articles. In such a case the buying becomes speculative. Likewise, when casting a glance over the past, the trader must not forget to take stock of the present possibilities of the market. An attentive salesman may easily discern fluctuations in the number or in the purchasing power of his customers by taking note of the daily turnover, the number of cash vouchers, the demand for credit, etc. The statistics of sale merely furnish a basis of evidence although they bring into the buying a certain amount of system. In this respect the

retailer, with his variable requirements, is at a disadvantage when compared with the wholesaler.

**The Quality.** The saleability of goods depends upon the quality and the nature of the goods, and affords the possibility of clearing the stocks in proper time. A trader must, therefore, buy the goods which he can sell and which he knows his customers require. If he can restrict his sales to the best goods in his particular line, this is all the better. The peculiarities of his customers, their tastes and requirements, and especially their purchasing power, very often compel him to sell goods of inferior quality. According to the situation of his shop in a well-to-do district or in a poor quarter, a dealer either will be able to sell the very best quality in his particular line or he must resort to more inferior qualities. At any rate he should strive to offer goods which are worth buying, and even if they are of a simpler kind they ought at least to be durable and useful, satisfying the customer and making him feel that he is getting value for money. In order to find the right kind of goods he must look around him carefully ; he must be acquainted with the sources of supply, and must be able to judge the quality of the goods in order to purchase in those quarters in which he can get the best goods for his purpose ; he must study the wishes and needs of his customers, soliciting their opinion so as to be able to serve them in a satisfactory manner, and so retain their patronage. Furthermore, in the selection of the goods he must consider his competitors, and must try to equal them in the variety, quality, and price of the goods, or even to excel them in these respects. Hence it is advisable to keep a steady eye on his competitors.

**The Price.** Since the trader's selling price must be kept within certain limits, he must naturally direct his efforts to buying as cheaply as possible. This, however, must not be understood to mean that the trader should make it his principle to higgledown the price at all costs. In this respect he must not make himself such a nuisance to his suppliers that they get the impression that he is out to exploit them, or they will ultimately refuse to serve him. In that case the trader would receive greater injury than benefit, for he would then be forced to resort to suppliers who might deliver cheap goods but of inferior quality.

**The Time of Delivery.** The reliability of the supplier in the regular

and timely delivery of his goods is a matter of the greatest importance. The cheapest of several offers is not always the best. There are other means of securing cheap purchases, such as effecting the purchases at the right place and at the right time. If the trader can procure the same goods in equal quality in several places, he should choose the one nearest, for transport and other expenses will be considerably reduced and thus lead to a lower prime cost. Many goods, especially the standard articles of international trade, such as coffee, cotton, grain, etc., have their fixed market centres. It is essential that the buyer should have a thorough knowledge of these markets because they afford him the most favourable opportunities for buying. This principle is also applicable to the selection of the goods at the right time, although in this respect it is more difficult to be sure of one's action. The question is to make the purchase at a time when the price is presumably low, and then the trader is safeguarded against any fall in values which might influence the selling price. In the case of some goods the moment of the lowest price can be ascertained from experience; goods have their seasons, as for instance, coal, sugar, and other products. The price is regulated by demand and supply, and as the market supply is particularly heavy after the incoming of the crop, the prevailing prices of agricultural produce are generally low at that period, whereas the price rises with the decrease of the stock until the arrival of the new crop. This price fluctuation, however, is not a regular one, and may be effected by particular occurrences such as the conditions of the world market, failures of crops, etc. In any case it is necessary that the buyer should have his eye continually on the factors which determine price, and to this end he should make a careful study of the *market reports*. These reports contain lists of prices and news relating to the trend and state of the market, the available supplies, imports, prospects of the harvest, etc. It is advisable to draw up statistics of prices from which the price fluctuations can be seen. It would be a mistake to await the actual period of demand for such articles, for then a higher price would undoubtedly have to be paid. Apart from certain semi-manufactured articles, manufactures are not marketed in the same manner as agricultural products; hence these principles are not applicable.

In general, when considering the right moment to buy, the

time of purchase must not be chosen too early; unnecessary warehousing must be avoided for the goods may depreciate, and this would also involve a loss of interest. On the other hand, the time should not be unduly postponed to allow of the stocks becoming exhausted or of the seasonal goods arriving too late. A continuous control of the stocks is indispensable.

### TEST PAPER 6

1. "The art of buying has its basis in the proper estimation of demand." Expand and elucidate.

2. "The ultimate profit of a business depends not only upon the margin of profit per unit of commodity, but also upon the size and rapidity of the turnover." Explain this statement.

3. Explain, with specimen figures, the advantages attaching to a rapid rate of turnover in the case of a retail grocer.

4. "Small profits and quick returns" is often to be seen on the windows of retailers. Explain this as fully as you can.

5. What are the chief factors to be taken into consideration by the trader when effecting his purchases?

6. Estimate the importance to a trader of the statistics of his past sales when ordering his supplies.

7. Enumerate some of the chief points to be considered by a trader when deciding upon the *quality* of his purchases.

8. "The trader should effect his purchases as cheaply as possible." What limitations are there to the application of this principle?

9. What factors must a trader bear in mind when deciding upon the right moment to effect his purchases?

10. Why should a trader consider (a) the time of delivery, (b) the proximity of the supplier, and (c) the time of purchase when replenishing his stock?

11. "The price alone is not the determining factor in the purchase of goods." Mention the other considerations which should influence the trader in effecting his purchases.

12. What would you consider are the chief characteristics necessary to make a successful buyer for a large trading concern?

13. Describe the activities of a buyer in connection with any business with which you are acquainted, and explain the factors affecting his decisions in buying.

14. What considerations influence a grocer when deciding the class, quality, and quantity of goods with which he stocks his shop?

15. It has been said that "price, quantity, and conditions of delivery are the chief factors to be considered in buying." Discuss this statement.

## CHAPTER VII

### THE FIXING OF PRICES

AFTER the arrival of the goods, the trader's next endeavour is to find a sale. For this purpose he offers the goods to his customers. Under certain circumstances this may have been done immediately on receipt of quotations from his suppliers. In such a case, however, he will take the precaution of making his offer "subject to being unsold." On receipt of the invoice from his suppliers he can then operate with greater safety.

In making his offers he must have sufficient data upon which he can base his selling price, that is, the price which will recoup him for all expenses and leave him an adequate profit. He must be in a position to make a calculation of the exact cost.

#### NECESSITY FOR ESTIMATING THE PRICE.

The pricing of goods is one of the most important duties in the office. The care with which this is done will determine to a large extent the success of the undertaking. The trader must pay careful attention to all the factors which entail expense and which must be covered by the sale price of the goods ; he must also add a profit which will yield him an adequate interest on his capital and leave him a recompense for his work and risk. As a rule, if his prices are not too dear he will, other things being equal, be able to maintain himself against his competitors. Where he finds it impossible to compete with his rivals, then either he must be buying too dearly or his expenses are too high ; or in some cases he may be in competition with a firm which is selling its goods below market prices in order to become established. At any rate, a careful study of one's competitors is essential in the calculation of the rate of profit. Frequently the price based upon a careful calculation is not the one ultimately charged ; for if the customer takes exception to the price and refers to the lower quotations of competitors, the trader may have to allow a reduction in order to secure the business.

In some cases there may be no need for the trader to fix the

price. This is the case with goods which have a standard price or those whose price is fixed on the exchange. The latter price is published on exchange days, and is the result of the general state of the market as established by demand and supply. Sales in these articles outside the exchange are usually effected at the same price, and the trader must adapt himself to this market price in the regulation of his supplies and expenses. The same remark applies to proprietary articles whose prices are fixed by the manufacturer. The trader has, therefore, to adapt his expenses to the difference between the buying and the selling prices in order to leave himself an adequate profit.

### METHOD OF PRICING THE GOODS.

The price is calculated in the following manner—

1. **The Cost of the Goods**, as indicated by the supplier's invoice, constitutes the basis of the calculation. In this connection consideration has to be taken of any allowance on the weight or on the value of the goods in the shape of rebates and discounts.

2. **The Expenses of Buying**, such as commission to agents, buying brokers, etc., and all other expenses which increase the purchase price, such as those connected with the taking over of the goods, weighing, and temporary warehousing, as well as those resulting from the settlement of the account by bill of exchange.

3. **The Cost of Transport**. These include such items as freight, railway carriage, cartage, and, in the case of foreign trade, Customs duties (if any). Up to this point the price is frequently spoken of as the prime cost. Where the supplier delivers the goods free to the buyer's warehouse, the cost of transport need not be calculated. To complete the prime cost, a certain amount is sometimes added as interest for the time the capital has been invested in the particular goods. This item, of course, would not be included if the goods were not paid for until after the date of the sale.

4. **Loss Due to Leakage, Evaporation, etc.** Consideration has to be taken of any loss in quantity which may have occurred during the transport of the goods, and which, in the case of goods sold by weight, appears in the shape of leakage or evaporation. This form of loss is usually known as *ullage*.

The expenses we have hitherto considered are particular expenses, because they may be established for each consignment of goods

as shown by the documents. Where they have reference to the monetary value of the consignment, they are *ad valorem* expenses (e.g. commission, interest, insurance, *ad valorem* duties), and specific expenses if they are calculated on the weight of the goods (e.g. freight and Customs duties). There is also the question whether the price has to be based upon a certain unit of the commodity or for the total quantity of the consignment.

**5. General Expenses or Overhead Charges.** Next we have to add the general expenses which cannot be ascertained in the case of each particular consignment. These include such items as salaries and wages, contributions to workmen's insurance, rent, lighting, heating, and cleaning, warehousing expenses, expenses involved in the preparation and packing of the goods, office expenses, depreciation of and repairs to buildings, travelling expenses, expenses for all kinds of advertising, and in the retail trade the particular expenses incurred in connection with the delivery of the goods, rates and taxes, and loss through bad debts.

It is impossible to calculate all these expenses in reference to individual articles. The best plan is to ascertain them for the whole year and then compare their total with the amount of the turnover. This relative figure expressed as a percentage shows the quota which has to be added to the prime cost for overhead charges. The annual verification of this figure is advisable, but in the course of time, when the business is well established, an average figure may be taken. Thus we have so far ascertained the *total cost price* of the goods.

**6. The Profit Quota.** Finally an amount must be added to the total cost price for profit. This item should cover the interest on the capital owned or borrowed, an adequate remuneration for the services of the entrepreneur and an amount to cover business risks. The rate of profit depends upon the keenness of competition and the magnitude and speed of the turnover. The longer the period of the turnover the higher must be the charge made for profit. The wholesale trader may content himself with a smaller profit than the retailer because larger quantities of goods are usually turned over by him without a corresponding increase of work, and frequently also without a proportionately greater capital. In the main the wholesaler has to bear a credit risk, whilst that of the retailer is chiefly one of sale.

The wholesaler, with a comparatively small number of articles, can estimate the probable sale with greater accuracy than the retailer. With the large number of articles in which a retailer has to deal, he is more likely to accumulate dead stock, especially in the case of articles of fashion which, at the end of the season, he has to sell at cost price or even at a loss. In view of this, he has to ask correspondingly higher prices at the beginning of the season.

In place of a special addition for expenses as under number (5), or an addition for profit as in number (6), it is the frequent practice in retail establishments to add a uniform and correspondingly higher amount to the cost price. Where the actual amount of the expenses has not been taken into account in the ascertainment of this percentage, the practice must be condemned as incorrect. This method is frequently applied in departmental stores, but only after careful investigation of the overhead charges. The so-called *revenue coefficient*, including overhead charges and profit, is calculated and then added to the cost price. This coefficient is ascertained for each department separately, and is based upon the amount of gross profit in relation to the total turnover for a given period. If the gross profit is £3,000 and the turnover is £10,000, the revenue coefficient is 30 per cent. The percentages which enter into the calculation for the current year are, of course, only figures based upon the experience of previous years and must be revised at the end of each business year. A fresh calculation should be made of the profit of each department, for it will be found that the figure fluctuates under various circumstances. This method of fixing prices has the advantage of simplicity: only one calculation has to be effected instead of two. The fixing of prices in departmental stores is further facilitated by the fact that purchases are effected "*free railway station*" or even "*free warehouse*."

Hence, in this way a selling price is ascertained which presumes the payment of cash by the buyer and delivery ex warehouse. Where the seller has to give credit, a corresponding addition must be made for loss of interest on capital. This is generally effected by adding the amount of the discount which has to be allowed. Where the delivery has to be made free to the railway station of the buyer's place of abode, or *free domicile*, the corresponding costs of transport must be added. Where the price quoted includes *credit*, the costs of transport must first be included, and then the

## SCHEME FOR THE CALCULATION OF PRICES

|                                                                                                                                                                                                                               | £   | s. | d.  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| 1. BUYING PRICE of 2 cwt. of Goods, net, as per Invoice                                                                                                                                                                       | 50  | -  | -   |
| Less 2 per cent Discount . . . . .                                                                                                                                                                                            | 1   | -  | -   |
|                                                                                                                                                                                                                               | £49 | -  | -   |
| ADD—                                                                                                                                                                                                                          |     |    |     |
| 2. BUYING EXPENSES—Small Buying Expenses (Broker,<br>Warehousing, etc.) . . . . .                                                                                                                                             |     | 10 | -   |
|                                                                                                                                                                                                                               | 49  | 10 | -   |
| Commission at 5 per cent . . . . .                                                                                                                                                                                            | 2   | 9  | 6   |
|                                                                                                                                                                                                                               | £51 | 19 | 6   |
| Expenses of Inward Transport—                                                                                                                                                                                                 | £   | s. | d.  |
| Freight and Cartage . . . . .                                                                                                                                                                                                 |     | 14 | 4   |
| Customs Duty . . . . .                                                                                                                                                                                                        | 5   | 5  | -   |
| Insurance and Primage . . . . .                                                                                                                                                                                               |     | 1  | 2   |
|                                                                                                                                                                                                                               |     | 6  | - 6 |
| TOTAL PRIME COST . . . . .                                                                                                                                                                                                    | 58  | -  | -   |
| Add 12 per cent interest for 3 months . . . . .                                                                                                                                                                               | 1   | 14 | 10  |
| Two cwt. of Goods Cost . . . . .                                                                                                                                                                                              | £59 | 14 | 10  |
| The checking of the weight shows that there has been<br>a loss of 2 lb. due to Ullage. Hence there remains<br>222 lb. left, and the price for the 2 cwt. would there-<br>fore be increased by 10s. 9d., which gives . . . . . |     |    |     |
|                                                                                                                                                                                                                               | 60  | 5  | 7   |
| ADD Trading Expenses or Overhead Charges at 6 per<br>cent . . . . .                                                                                                                                                           | 3   | 12 | 4   |
| TOTAL COST . . . . .                                                                                                                                                                                                          | 63  | 17 | 11  |
| ADD 10 PER CENT PROFIT . . . . .                                                                                                                                                                                              | 6   | 7  | 9   |
| CASH SELLING PRICE . . . . .                                                                                                                                                                                                  | £70 | 5  | 8   |
| TERMS: 30 days or 2 per cent ∴ add 2 per cent                                                                                                                                                                                 |     |    |     |
| Discount . . . . .                                                                                                                                                                                                            | 1   | 8  | 1   |
| CREDIT SELLING PRICE . . . . .                                                                                                                                                                                                | 71  | 13 | 9   |
| Free Delivery Price—                                                                                                                                                                                                          |     |    |     |
| ADD Transport Charges . . . . .                                                                                                                                                                                               | 1   | -  | -   |
| TOTAL PRICE—FREE DOMICILE . . . . .                                                                                                                                                                                           | £72 | 13 | 9   |

rate of interest on the total amount thus obtained must be added. When the goods are sold through an agent his commission must also be taken into consideration. The presumption is, of course, that competition will permit the seller to pass on all these expenses to the consumer.

## TEST PAPER 7

1. Where a trader finds it difficult to compete with his rivals, to what matters should he first turn his attention in order to discover the cause?

2. In what cases is it unnecessary for the trader to fix his own prices?

3. Enumerate the elements which usually constitute the price of an article.

4. Explain the meaning of the term "Ullage" and state under what circumstances it arises.

5. Define the term "Revenue Coefficient." Explain the method of its ascertainment.

6. It is said that the more quickly goods pass through the shop or warehouse the smaller will be their share of the overhead expenses. Discuss this statement and illustrate your answer by reference to some particular goods.

7. Express graphically, in terms of the various elements of cost, the relationship between the prime cost and the selling price of a commodity. Define each element.

8. When developing a costing system for a large retail business, it is necessary to group under certain broad classifications all expense items. Tabulate these items and indicate the system of classification you would adopt.

9. The following figures show how the retail price of a ton of Derby Brights in Central London is made up—

|                                                                                                                                                                                                                                                                                 | s.        | d.       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------|
| Pithead price . . . . .                                                                                                                                                                                                                                                         | 27        | 9        |
| Railway freight and charges, including wagon hire . . . . .                                                                                                                                                                                                                     | 11        | 11       |
| Wages of loaders and carmen . . . . .                                                                                                                                                                                                                                           | 4         | —        |
| Cartage expenses, including sacks . . . . .                                                                                                                                                                                                                                     | 2         | 7        |
| Other distribution costs, e.g., clerical salaries and managers ;<br>establishment charges, including stationery, telephone,<br>rents, postage, light, water, travelling, advertising, bad<br>debts, discounts, and allowances, national health and<br>other insurances. . . . . | 3         | 8        |
| Margin for profit and contingencies . . . . .                                                                                                                                                                                                                                   | 1         | 1        |
|                                                                                                                                                                                                                                                                                 | <u>51</u> | <u>—</u> |

Draw a diagram to show these various elements as percentages of the total cost, and state whether you think any of these items of cost could be eliminated.

## CHAPTER VIII

### GENERAL PRINCIPLES OF SELLING

ALTHOUGH the sale of an article is greatly facilitated by good buying, yet selling at a permanent profit is a difficult art involving the consideration of many factors. Selling varies in difficulty according to the nature of the goods, the time of sale, the personality of the purchaser, and also according to how and by whom they are sold.

The *price* and *quality* of the goods constitute the basis of the sale. The time of the sale is not a matter of indifference. Selling is more likely to be successful in periods of boom when the market conditions are said to be favourable. On the other hand, it is difficult to effect sales during a period of extensive strikes owing to the unfavourable market conditions which are thereby created. In the case of every sale the prevailing economic conditions and the personality of the salesman play an important part. A sale to a professional trader is not the same as one to an ordinary consumer. The latter expects, for instance, more detailed explanations than are required in the case of the experienced buyer. Next to be considered are the needs of the buyer—whether his demand is large or small, regular or occasional, urgent or not. A demand may have first to be stimulated by the introduction of new articles. Then there is the purchasing power of the customer which calls for consideration. Where this has been diminished through bad harvests, strikes, war, etc., it will be felt not only in trade but also in the actual sphere of production. The establishment of *cordial relations* between the seller and the buyer greatly facilitates the sale. Even with the help of recommendations it is not always easy to arrive at this understanding, but the maintenance of such a cordial relationship should be the constant endeavour of every good salesman. In this connection he knows that small presents and the personal interest in little things may sometimes play a not inappreciable rôle. At times the buyer is personally or economically tied to the seller, in which case the sale is naturally facilitated, but frequently, however, to the detriment of the dependent buyer.

**SALESMANSHIP AS AN ART.**

It is the object of the trader to maintain his old customers and to acquire new ones. With this object in view he must understand the art of salesmanship. In the first place he must observe certain external circumstances which are important for the success of his selling activity. He must tactfully cultivate direct relations with his customers, and must finally set up a suitable sales organization.

**EXTERNAL CIRCUMSTANCES.**

The primary considerations in the way of external circumstances are the fixing of the right price and the offer of suitable qualities. As regards the price, the cost of the goods will naturally set a rigid minimum limit. The addition for profit is the only item which is subject to changes. The fixing of this profit at the right figure is of the greatest significance in the success of the business. The goods bought must be sold, and whether they are of the requisite quality will be shown by the results of the sale. Where the trader makes a mistake in this respect he must alter his buying arrangements in the future. The selection of the right period for the sale of the goods is also essential. The trader must be ready with suitable goods at the proper seasons. In the case of goods which are not tied to any particular season, the sale must be adapted to the market fluctuations. In a rising market customers are more willing to buy than in a falling market. The trader must devote the whole of his attention to the purchasing power of his customers, demand will fluctuate according to circumstances, such as the particular need for the goods, or the purchasing power of the customers. Demand will either be in existence or have to be awakened. All these different circumstances must be taken into account in selling, and in this connection it is immaterial whether the trader is a wholesaler or a retailer.

**PERSONAL QUALITIES OF THE SALESMAN.**

The proper cultivation of direct relations with the various customers postulates a certain fitness for his position in the seller. In the first place he must be possessed of a sufficient knowledge of his trade and of his goods in order to supply the customer with

all possible information in regard to the quality, price, production, and state of the market for the goods. He must also be possessed of adaptability to meet the tastes and wishes of his customers and to conform to their peculiarities, habits, and language. By his very manners he must arouse confidence. It requires knowledge and experience of the world to be able to size up the customer and win him—whether by politeness and courtesy or by a determined and firm demeanour. In this respect the taste of customers differs greatly—some prefer a loquacious and sympathetic salesman, others a reserved or dignified salesman. The dress of the salesman is also a matter which should receive attention.

#### A SUCCESSFUL SALESMAN.

The successful salesman is the one who gets “ repeats,” for it is only on the repeat orders that a trader can build up a permanent going concern.

The first quality of the salesman, other than that of conviction of the merits of his goods, is excessive *tact*, and the rest is unbounded *optimism*. He must be able to sense the requirements of his customers, as sometimes they have only hazy ideas of what they require ; and then he must so lead them that apparently they have described their wants and the salesman has simply satisfied them. It is not sufficient to sweep a customer off his feet by a flood of elocution and thus force him to buy against his will. When time for reflection comes, this customer will invariably be lost, as he will never return. The good points of the article should be carefully presented, and at the same time the salesman should be able to anticipate adverse criticism and be prepared to crush it. Perfect civility is necessary always, no matter how rude customers are, as the object of the salesman is to satisfy—not give cause for complaint.

The salesman’s duty is not, however, finished with the sale. This is especially the case as regards machinery, and a judicious visit paid to the customer to see how the machine is working still further satisfies the customer, by making him appreciate the personal interest shown by the firm, and even if no “ repeats ” come from him, his recommendation to others will be beneficial. The question of service after sale does not appear to be sufficiently developed in England, although a great point of it has been made by many

American manufacturers. The motor industry in England is perhaps an exception.

#### WHOLESALE *v.* RETAIL SALESMANSHIP.

All these characteristics of good salesmanship are much more easily practised in the retail than in the wholesale trade. In the former the seller has the customer before his eye and can observe him, but in the latter much of the trade is done through the medium of correspondence. The shop salesman should closely observe the customer and base his treatment upon the result of his observation. Some firms issue instructions to the members of their selling staff designed to direct their observations. In these rules the customers are grouped into classes such as the good natured, the decided or determined, the knowing ones, the critical, the conceited, and the persons who desire to procure advantages, as well as the occasional or chance customers. In the mail-order business, as we have already remarked, it is much more difficult to consider the personality of the customer. The only hints in this respect are to be obtained from the correspondence, unless personal relations can be established through agents. It is always advisable to seek the acquaintance of the customer, and if possible to get into friendly touch with him. In the establishment of intercourse with new customers good recommendations are invaluable.

Finally, the whole of the sales organization must be designed with a view to the suitable treatment of the customers in the light of their *purchasing power* and with the object of extending their number. This we shall have to discuss in the next chapter. Here it is necessary to say that the treatment of the customers constitutes only a part of the sales technique, and that it differs in the retail from the wholesale trade. The control of the sales must not be confined to an examination of the turnover of the individual customer, but must be extended to the proper supervision of the persons engaged in the sale, such as salesmen, travellers, and agents ; and every attempt must be made to increase the goodwill by all forms of propaganda. In short, the art of salesmanship is influenced by the whole management of the business, and includes all those matters which are comprised under the expression " the acquisition of customers."

## TEST PAPER 8

1. "Selling varies in difficulty according to the nature of the goods, the time of sale, the personality of the purchaser, and also according to how and by whom they are sold." Critically examine this statement in the light of your own experience.

2. Enumerate three of the chief factors which facilitate the sale of goods.

3. State shortly what you mean by the art of salesmanship. Mention some of the different circumstances which affect the sale of goods.

4. What personal qualities do you think a good salesman should possess?

5. In what respects does salesmanship in the retail trade differ from that in the wholesale trade?

6. Write notes on the following and show how they affect the sale of the trader's goods—

(a) Price and quality.

(b) Time of sale.

(c) Personality of the seller.

(d) Purchasing power of customers.

7. How would you compare the effectiveness of the salesman who is silent with the one who talks too much?

8. Do you think the methods of salesmanship in your business or district are superior to those of any other business or district? If not, name the business or district and explain in what respect they differ, and how they excel.

9. "One of the essential qualities of the salesman is knowledge—of his goods, of his customers, of the world generally." Substantiate this view.

10. At a recent local Chamber of Commerce meeting, a member, in the course of a discussion on salesmanship, said he was tired of interviewing travellers who knew less about the goods they offered than he did himself. Discuss the justification, or otherwise, of this remark.

11. Many salesmen, especially in textile trades, now take goods round with them in their cars and sell direct from the car to the retailer. Give the advantages and disadvantages of this system.

12. You are a sales manager choosing a new traveller. State what qualifications you require in your applicant.

13. A trader purchased some goods for £1,000. He sold them for £1,500. His total expenses in selling them were £250. Find (a) the total gross profit; (b) total net profit; (c) percentage of net profit on cost price; (d) percentage of net profit on selling price; (e) the percentage of working expenses to sales.

14. Give an example of service before, during, or after the sale.

## CHAPTER IX

### METHODS OF INCREASING THE TURNOVER

As already mentioned, there is no sphere in which competition is so highly developed and carried on with such sharp weapons as in business ; it begins with the selection of the place of business, in the struggle for the best and cheapest site. Competition thus raises the rent of shops and offices in the more frequented streets—sometimes to such an extent that many retail businesses can scarcely earn their rent. Competition also extends to various other conditions, and factors of management, such as the sources of supply, banking connections, employees, and the fixing of prices ; indeed, to the whole internal and external organization of the business.

#### COMPETITION FOR THE MARKET.

In this competitive conflict the principal strife is waged in the *struggle for customers*. When the term “competition” is used, it is generally understood to mean the competition of the business man for the market. The common goal for which merchants strive is the purchasing power of the consumers, who cover their requirements in their own free way. The means of competition, therefore, must be of such a nature that they draw the attention of the consumers away from other businesses and induce them to give their patronage to one’s own business. The individual trader may obtain his patronage if he renders his own business more attractive than others, and if he can carry the conviction to his customers that they do not buy so cheaply and advantageously from competitors as from him. This latter method is fraught with danger as it may easily come under the heading of “unfair competition.” On the other hand, every endeavour to further one’s own business in a positive manner is perfectly legal and fair. In this connection, however, there are two kinds of means : on the one hand, the advantage to be gained in price, quality, selection, and in credit ; on the other hand, the adaptability to the requirements, wishes, or even peculiarities and whims of the customers as well as to their convenience. In the positive direction we may

distinguish between the objective and subjective means of competition. The former are to be found in the price, the quality, and the terms of credit, and these we shall now consider.

### THE OBJECTIVE MEANS OF COMPETITION.

For obvious reasons the *price* forms the most important weapon in competition. The trader who can sell the same goods at a lower price will do the business and beat his competitors even where old customers are concerned. In order, however, to be able to offer his goods cheaply he must reduce his business expenses to the lowest possible level and content himself with a small profit per unit of commodity. Thus competition works in the direction of the greatest economy. Nevertheless, the undercutting of prices has its natural limits. The selling price must cover the cost of the goods and leave a margin of profit. If the trader fixes his prices below these limits his business becomes unprofitable, and may even be carried on at a loss and thus fail in its object. Such under-cutting often takes place to obtain a new customer in the expectation that the initial loss will be recovered by subsequent remunerative business, and may even leave a surplus of profit. Such expectations and hopes, however, frequently fail to materialize, because the wholesale merchant in every new purchase studies the market position and takes notice of competition. Competition in *selling* may be said to reduce the price in favour of the consumer and to lead ultimately to a lowering of price by the producer. Competition in *buying* raises the price in favour of the producer and to the detriment of the consumer. Competition in both buying and selling must therefore aim at an equilibrium of the price position as between the producer and the consumer by which both parties benefit, and in which the margin of profit of the intermediary trade is reduced to the lowest possible level. Moreover, the trader tends to impede any sudden fluctuations in price between the producer and consumer, and holds in check the spasmodic influences upon the whole economic system, and thus exerts a steady influence over prices.

In the wholesale trade the *quality* of the goods plays a subordinate rôle because the specialized trader usually directs his price competition to a fixed quality of goods. In the retail trade the matter is different. A business man who wants to retain his customers

tries to beat his competitors by the offer of a better quality. He lays the greatest stress upon his reputation as a reliable business man and seeks to obtain and retain the confidence of his customers by serving them with a good quality. In this is to be found the surest condition of success. The best weapon with which to oppose unfairness and fraud is to be found in honesty and straight dealing.

A third means of competition consists in the trader's *adaptability to the purchasing power* of his customers. In the selection of his goods the retailer must adapt himself to the tastes, requirements, and purchasing power of his customers. To them his window display represents a kind of instruction class in which foodstuffs, clothing, and articles of luxury are exhibited in various qualities and at corresponding prices. Hence the customer has the opportunity of forming his judgment and thus receiving the impression that he is paying the right price for his purchase.

A trader who sells only for cash, eliminates all those customers who cannot meet his terms of payment on account of the absence of *credit*. Furthermore, it is obvious that the quantity of goods which a customer can purchase will increase with the extension of the credit he receives from a seller. For this reason, the quantity of credit becomes one of the most effective means of sale ; as a matter of fact, many dealers do not purchase from the best and cheapest source, but from the supplier who gives the biggest credit. It is therefore obvious that the trader will avail himself of the means to beat a competitor by granting a larger and longer credit. This leads, however, to a state of affairs which is disadvantageous from both a business and a national economic standpoint.

In the intercourse between the wholesaler and the retailer it happens that the former, so to say, forces his credit upon the retailers with a view to disposing of his goods. In this way the wholesaler not only injures himself by incurring losses through bad debts, but does damage to the retailer who overstocks himself and gets into debt, with the result that he has ultimately to sell his goods at a loss in order to get money to pay his debts. The wholesalers, however, also inflict damage upon the wholesale and retail trade since they grant credit not only to the capable and conscientious retailers, but also to the newcomers who open a shop with insufficient capital, or to the inefficient and unscrupulous

traders. Hence, every endeavour by the wholesaler and manufacturer to mitigate these evils should be welcomed, and encouragement should be given to the formation of associations for the standardization of credit.

### **SUBJECTIVE MEANS OF COMPETITION.**

In contrast to the real advantages which a business man may hold out to his customers in connection with the price and quality of the goods, and with reference to the terms of payment, there are a number of devices of a less concrete nature which are directed rather to the influencing of the subjective judgment. The attraction of customers, the evoking of sympathy and other similar means, are all based upon the fact that the consumer, just because he is not an expert, can be induced to buy not only by the offer of cheap and good commodities but in a far-reaching measure by means of suggestion. The influence upon his judgment, the appeal to his comfort or to his opinion and peculiarities, play a great part in buying. In this direction a wide field is open to competition—a field which is exploited more or less conscientiously by every trader. It is impossible to enumerate all the little devices which are employed in everyday life to attract customers, and we shall therefore confine ourselves to a number of the main groups—

**I. Adaptation to the Customers' Desire for Ease and Comfort.** In this category may be included—

- (a) Ordering by telephone
- (b) House delivery of goods.
- (c) Sending goods on approval.
- (d) Willingness to take back any goods which are not approved by customers.
- (e) Provision of conveniences, such as lifts, moving staircases, inside refreshment facilities, concerts, theatre bookings, etc.
- (f) Quick and courteous service.

**II. Adaptation to the Peculiarities, Habits, and Whims of the Customer.** This adaptation is possible only where there is a careful study of the characteristics of the customers.

Here psychology is not less important than a knowledge of the goods. The prudent trader will never be impolite or discourteous ; he who does not buy to-day may buy some other day. A friendly word here, a courteous gesture there, a little information about

# CONDITIONS CONDUCTIVE TO AN INCREASE OF TURNOVER

| Internal Business Relations.         |                                   |                                                                                                                            |                                                                                                                   |
|--------------------------------------|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Subjective.                          |                                   | Objective.                                                                                                                 |                                                                                                                   |
| Buyer's Side.                        |                                   | Internal Selling Organization.                                                                                             |                                                                                                                   |
| 1. Adaptability to customer's needs. | 2. Knowledge of his wares.        | 1. Means of facilitating the purchase.                                                                                     | 1. The display of goods, such as show-rooms, window display, dispatch of samples, catalogues, etc.                |
| 2. Patience and forbearance.         | 3. Initiative.                    | (a) Ordering of goods by telephone.                                                                                        | 2. Various forms of publicity, such as newspaper advertisements, etc.                                             |
| 3. General qualities, etc.           | 4. Ability to inspire confidence. | (b) Delivery of goods by trader's own conveyance.                                                                          | 3. Pleasing and tasteful packing.                                                                                 |
| 4. Remove doubts.                    | 5. Sweep away difficulties.       | (c) Submission of samples and patents for approval.                                                                        | 4. Apparent advantages, such as rebates, gifts, discounts, etc.                                                   |
| 5. To settle disputes.               |                                   | (d) Willingness to take back unsuitable or unacceptable goods.                                                             | 5. The attraction of customers by special inducements such as the deliberate sale of an article under cost price. |
|                                      |                                   | (e) Shop conveniences, e.g. lift, refreshment and writing rooms, and permission to inspect shop without compulsion to buy. | 6. Travellers.                                                                                                    |
|                                      |                                   |                                                                                                                            | 7. Local agents and travellers on commission.                                                                     |
|                                      |                                   |                                                                                                                            | 8. Commission agents.                                                                                             |
|                                      |                                   |                                                                                                                            | 9. The establishment of branches.                                                                                 |

| External Business Relations.         |                                   |                                                                                                                            |                                                                                                                   |
|--------------------------------------|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Subjective.                          |                                   | Objective.                                                                                                                 |                                                                                                                   |
| Buyer's Side.                        |                                   | Internal Selling Organization.                                                                                             |                                                                                                                   |
| 1. Adaptability to customer's needs. | 2. Knowledge of his wares.        | 1. Means of facilitating the purchase.                                                                                     | 1. The display of goods, such as show-rooms, window display, dispatch of samples, catalogues, etc.                |
| 2. Patience and forbearance.         | 3. Initiative.                    | (a) Ordering of goods by telephone.                                                                                        | 2. Various forms of publicity, such as newspaper advertisements, etc.                                             |
| 3. General qualities, etc.           | 4. Ability to inspire confidence. | (b) Delivery of goods by trader's own conveyance.                                                                          | 3. Pleasing and tasteful packing.                                                                                 |
| 4. Remove doubts.                    | 5. Sweep away difficulties.       | (c) Submission of samples and patents for approval.                                                                        | 4. Apparent advantages, such as rebates, gifts, discounts, etc.                                                   |
| 5. To settle disputes.               |                                   | (d) Willingness to take back unsuitable or unacceptable goods.                                                             | 5. The attraction of customers by special inducements such as the deliberate sale of an article under cost price. |
|                                      |                                   | (e) Shop conveniences, e.g. lift, refreshment and writing rooms, and permission to inspect shop without compulsion to buy. | 6. Travellers.                                                                                                    |
|                                      |                                   |                                                                                                                            | 7. Local agents and travellers on commission.                                                                     |
|                                      |                                   |                                                                                                                            | 8. Commission agents.                                                                                             |
|                                      |                                   |                                                                                                                            | 9. The establishment of branches.                                                                                 |

the quality of the goods, a discreet word of praise of samples, an unruffled temper in spite of irritation by customers—these are the little arts which tend to attract and lead to business expansion.

**III. The Tasteful Packing of Goods.** An attractive wrapper increases the customer's desire to buy. For this reason not only manufacturers, but wholesalers and retailers are continually striving to excel one another in the preparation of the goods for the market. Examples are to be seen in the tasteful packing of chocolates, cigars with artistic paper bands, bottles of wine with decorative labels, etc.

**IV. The Window Display.** The window display is one of the principal weapons in the competitive struggle. Nowadays the dressing of windows has become a real art. Large firms employ specially trained persons to dress the windows in an attractive way and at frequent intervals. In a busy street these modern window displays form a great attraction, and are the best means of advertising. They are also a potent factor in the stimulation of new wants. Neither poor working women nor rich ladies have it in them to pass an attractive window display without stopping to admire it : thus they are tempted to enter the place and make a purchase. To-day the window display constitutes one of the most important weapons of competition.

**V. Freedom of Inspection.** The well organized display of the goods should be combined with the customers' freedom to enter the shop without any obligation to buy. This is a most effective means of attracting customers and one which has been fully exploited by the large stores.

**VI. Advertising.** As already mentioned, this is an important factor in competition. Advertising, however, must be carried out systematically if it is to be effective. It is a mistake, however, to think that a permanent sale may be obtained for inferior products by means of advertising. Permanent success is only secured by advertising those goods which possess real advantages over those sold by trade rivals.

## **SUMMARY OF CONDITIONS ESSENTIAL TO AN INCREASE OF THE TURNOVER.**

In the diagram on page 83 an attempt is made to summarize the conditions necessary for a profitable and permanent turnover. These may be considered as follows, viz.—

**1. External Conditions**, which are presented to the seller by the actual conditions over which he has no control. These are to be found partly on the side of the seller and partly on the side of the buyer.

(a) ON THE SIDE OF THE SELLER, the following are the chief factors to be considered, viz.—

1. *The Price*, the minimum level of which is determined by the cost and production of the goods. The only variable portion of it is the addition of profit, but this is frequently determined by circumstances.

2. *The Quality*. The seller can offer only those goods which he has produced, or which are in his possession, and then quality can vary only where the buyer is not a judge of the goods.

3. *The State of the Market*, that is, the general conditions afforded by the margin between demand and supply and over which the trader has no control. In a rising market the sale is easier than in a falling market.

(b) ON THE SIDE OF THE BUYER.

1. *The Demand*, which extends not only to the quantity but also to the nature of the goods required—a factor entirely beyond the control of the seller. Where there is no demand, all the persuasion on the part of the traveller is useless unless he can succeed in creating a demand, which may be possible in the case of new articles. A further consideration is whether the demand is recurrent as in the case of foodstuffs, or whether it is only an occasional demand; whether the demand is urgent or whether it may be postponed, or whether it is large or small. All these matters must be ascertained by the seller so as to enable him to regulate his actions accordingly.

2. *The Purchasing Power*, which includes not only the consumable capacity of the buyer, but also his ability to pay. Where the buyer—as a trader—is a re-seller, his purchasing power will depend upon his sales, which in turn are determined not only by his selling capacity but also by the purchasing power of the ultimate consumer. And this brings us to the fact that a decline in the purchasing power of the masses of the people reacts upon all members of the commercial community, and thus on production itself. For this reason the retail business is probably the best indicator of the market

3. *The Business Acumen of the Buyer.* The art of selling varies greatly according to the degree of knowledge possessed by the buyer of the particular commodities, the market conditions and the nature of the competition.

(c) CONDITIONS DEPENDENT ON THE RELATIONS EXISTING BETWEEN THE BUYER AND THE SELLER.

1. *The Personal Relations between the Buyer and Seller.* As a rule selling is rendered all the easier if there is an intimate personal relationship existing between the parties to the contract. It is an easy matter to approach the buyer with whom we have friendly relations or with whom we are acquainted. The most difficult position is where an unknown salesman has to introduce an unknown firm and acquire new customers for it. Of great assistance in such cases are recommendations from friends or acquaintances of the prospective customers. In any case, every good salesman will strive to establish friendly relationships with his customers, and he will avail himself of every means to enlist the sympathy of the buyer by taking an interest in his welfare. If the seller is a wise and experienced business man he will also give the buyer good advice and any explanation of the goods which may be of value to him.

2. *The Mutual Dependence of the Buyer and the Seller.* A buyer is frequently tied to a particular seller either because he has received credit for him or because he has accepted a loan. On the other hand, the seller is sometimes obliged to sell his goods to a particular buyer. In a certain measure these compulsory arrangements exclude competition and therefore give rise to abnormal conditions. They may easily lead to one or the other party taking an unfair advantage.

3. *Inelastic Factors.* The relationship existing between the buyer and the seller is determined by a number of peculiar circumstances which are almost indefinable, and which may be described as inelastic factors. They are to be found in the whole complex of the seller's personality, in the confidence which he may inspire, and frequently also in the influence of suggestion, in his education and character, his psychological knowledge, and his ability to handle men.

**II. The Internal Conditions which are Reposed in the Person of the Seller.** These include—

1. *Adaptability.* A business man will be suitable to act as a

salesman in proportion to the degree in which he possesses this quality. He must be able to adapt himself to the language, customs, and usages of his market, and to the requirements, habits, and peculiarities of his customers. Adaptation is also necessary in the fixing of the prices apart from the lowest limit set by the costs of production ; the seller must be in a position to make concessions in the price and terms of payment, especially if he wishes to compete successfully or if he wants to gain a new customer ; this is possible only if superior advantages are offered to the customer in comparison with those offered by his former supplier.

2. *Knowledge of his Wares.* The seller must be in a position to explain the qualities and advantages of his goods to the prospective customer, and to place in the right perspective the advantages of his goods over those of his competitors. For this reason he must possess a good knowledge of his line of merchandise, their origin and manufacture, as well as the marketing conditions in his own line of business.

3. *Endurance and Persistence.* The seller must not allow himself to be discouraged by failure, and where he has been shown " the cold shoulder," he must persist in trying again.

4. *Stimulation of Interest.* The seller must find out where there is a demand for his goods ; if necessary, he must try to create a demand. He must strive to stimulate a demand and must not wait until the customer searches him out.

5. *General Qualities.* The seller must have the faculty to inspire confidence, dispel doubts and clear away difficulties, and to settle claims and disputes. In some cases he must attain his object by conciliation, courtesy, and an effort to meet his customers, whilst in another case he may best succeed by the assumption of a firm demeanour or by tackling the situation humorously. In short, a business man must be a wise and prudent man of the world.

**III. The Selling Organization.** A most important condition for a remunerative sale is to be found in an adequate *sales organization*, which may be divided into an internal and an external one.

(a) **THE INTERNAL SALES ORGANIZATION.** This includes—

1. *The Correspondence.* Under this heading we include letters, circulars, price lists, and other written communications. In many businesses this is the only means of acquiring customers, whereas in other business houses the correspondence precedes the personal visit.

2. *The Control of the Customers.* In this connection a card index system may be recommended. A special card is apportioned to each customer, and upon this all details are entered which are of importance in dealing with a customer, such as a record of his orders, notes of travellers' visits and their results.

3. *The Cultivation of the Customers,* by correspondence, by travellers' visits, or through agents.

4. *The Control of Travellers and Agents.*

5. *The Internal Organization of the Propaganda.*

6. *The Organization of the External Selling Staff.*

(b) **THE EXTERNAL SALES ORGANIZATION.** Under this heading mention may be made of the following, viz.—

1. The exhibition, the show-room, and the window display, the dispatch of samples and of goods on approval, catalogues, testimonials from old customers, etc.

2. Advertising in its numerous forms from the newspaper advertisement to the poster ; from the electric sky sign to the sandwich man ; from the balloon advertisement to the posters along railways and roads.

3. Travellers.

4. Agents on commission.

5. Local agents.

6. The establishment of branches.

The commercial propaganda includes all these internal and external forms of organization for the securing of a permanent and profitable sale.

In recent years this branch of commerce has become the object of a special vocation. There are, nowadays, a large number of commercial undertakings which devote themselves to the introduction of new products or to the bringing into prominence of newly established businesses—their task being the discovery of new forms and means of advertisement.

## **CONTROL OF THE EXECUTION OF ORDERS.**

The various means and artifices for creating a sale, however, are bound to fail or can have only a temporary success unless they are supported by a careful and conscientious execution of orders. One of the most important means of sale, therefore, consists in the conscientious execution of the orders—that is, an execution in

strict accordance with the terms of the order. For this purpose an organization must be set up in every commercial concern whose task it is to control this service. This organization is linked up with the claims department which deals with the complaints received from customers.

In view of the great difficulties which have to be overcome in selling, it is natural that the dishonest trader should resort to unfair means. Among these may be mentioned—

(a) The offer of bribes to the employees of the buyer—a system frequently found in dealings with Government departments, large companies, and co-operative societies. To prevent such abuses legislation has been introduced which aims at the prevention of these corrupt practices.

(b) False accusations against competitors or the attribution of characteristics to one's own goods which they do not possess.

(c) The adulteration of goods or the giving of short weight or measure.

Apart from these various punishable offences, the legitimate means for procuring a remunerative and permanent sale are to be found in the cheapening and improving of the process of distribution. The more perfect the selling organization of a commercial business, the greater will be the economic advantage to the trader and its usefulness to the rest of the community.

#### TEST PAPER 9

1. "Every endeavour to favour one's own business in a positive manner is perfectly legal and fair." Examine this statement and explain the methods which, in your opinion, the trader should adopt if he is to compete fairly with his rivals.

2. Enumerate three subjective and three objective means by which the competitive struggle may be waged.

3. Describe the various methods of propaganda which may be used by a retail firm. Which method is especially prominent at this time of the year?

4. You have a retail business in a fairly large town. What methods would you adopt as an individual trader, and in conjunction with your fellow traders to combat the competition of such large concerns as the co-operative society, the multiple shop, and the departmental store?

5. Would you rather become a proprietor of your own shop or a manager in a large store? Give in detail the reasons for your choice.

6. If you were appointed the manager of a branch of a well-known multiple shop company and given a free hand, what steps would you take to increase the size of the business of the branch?

7. State the methods used in a newspaper advertisement, (a) to arrest attention, (b) to create interest, (c) foster a wish to acquire

8. A retail trader has a turnover of £600 per week, from stock at the commencement amounting to £60 and purchases, £350. The stock at the end of the week is valued (at cost), £70. The expenses of sale are: Rent, £10; rates, £3; salaries and wages, £12. Draw up a weekly statement showing the profit made and the percentage relation between it and the turnover.

9. What do you mean by the turnover of a business? Enumerate five different methods by means of which the trader may increase his turnover.

10. Copy out the diagram on page 83 and estimate which, in your opinion, are the three most vital factors in the increase of the turnover of a business.

11. Name the chief external conditions (a) on the side of the seller, and (b) on the side of the buyer, which assists in the establishment of a permanent business connection.

12. What are the physical and mental qualifications of a successful salesman?

13. Distinguish between the internal and the external sales organization of a business.

14. Enumerate some of the chief practices pursued by traders which might be regarded as "unfair competition."

15. What factors help to promote (a) good buying, (b) good salesmanship? Show how these are bound up with the prosperity of a trader's business.

16. A and B are traders in the same line of business. From the particulars given, calculate in each case (a) the net profit as a percentage of the capital; (b) the trading expenses per £ of sales.

*Trader A.* Capital, £10,000. Selling price of average stock carried £7,000, which he turns over three times per annum at a gross profit of 30 per cent on his sales. Trading expenses per annum, £5,000.

*Trader B.* Capital, £12,000. Selling price of average stock carried, £8,000, which he turns over five times per annum at a gross profit of 20 per cent on his sales. Trading expenses per annum, £5,000.

Comment on the results you have obtained.

## CHAPTER X

### NATURE OF MONEY AND ITS SUBSTITUTES

THE term "money" is applied to any commodity, whatever its substance or form, which, whether by law or convention, becomes the common medium of exchange in any community. It is of the essence of money that all persons who have anything to sell shall take it as a matter of course. The extensive use of an article in exchange does not necessarily make it money. The transactions, however numerous and important, may be nothing but acts of barter. So long as men take an article in exchange, having any great degree of uncertainty as to their finding a person who will take it from them; so long as men accept it with the feeling that it is something which they are buying, and which they will have to sell again, something for which they must needs hunt up a purchaser, that article is not money. For a thing to be money it must have *acceptability* so nearly universal that every person who has any product or service to dispose of will freely take it, in preference to seeking at the time the specific products or services which he may require from others, since he is fully assured that with this thing, money, he can at any time obtain the things he desires.

Each person, then, whatever his place in the industrial order, accepts money without reference either to his own need to consume any of the particular articles or to the character and credit of the person who offers it. When he has anything to sell he receives money from anyone, because he knows that any other person will take it from him whenever in his turn he wishes to buy. If an article reaches this degree of acceptability it becomes money, no matter what it is made of or why people want it. Hence the definition of Aristotle that money is *a third commodity chosen by common consent to be a medium of exchange and a measure of value*.

### FUNCTIONS OF MONEY.

The principal function of money is to act as a *medium of exchange* by avoiding the difficulties of barter. But besides this, money

performs other important services. Since all articles are exchanged for money, each is expressed in terms of money, and in consequence, all can at once and readily be compared among themselves as to value. This office of money is generally termed that of a *measure of value*; but the term is not descriptive, and has proved highly misleading. A better statement would be that money in this connection fulfils the office of the common denominator in exchange or denominator of values.

In more advanced stages of development, goods are not always exchanged for money at the time; an equivalent is not always or, perhaps, habitually given on the spot. Future payment is often stipulated for, and a new money function appears—that of a *standard for deferred payments*. In order to fulfil this function efficiently, the money material must be reasonably stable in value over a number of years, so that the creditor will not gain at the expense of the debtor, or the debtor at the expense of the creditor.

\*Closely allied to this function of money as a standard for deferred payment is its function as a *store of value*. When people save money they need to assure themselves that it will not deteriorate or otherwise change by the lapse of time. One of the advantages of gold and silver as money is that they do not deteriorate or change their physical qualities by keeping.

### MEANING OF MONEY.

Like most terms popularly current, money is elastic in meaning. Broadly, it is applied to all media of exchange, and these instruments of exchange may be classified as follows—

1. Instruments of exchange issued by the Government; the coinage, and any paper money put into circulation by the Government.

2. Instruments of exchange issued by banks, but regulated and more or less certified by Government, such as Bank of England notes, which are legal tender except at the office of the Bank of England.

3. Instruments created on the joint responsibility of banks and their depositors, such as cheques.

4. Instruments created by private individuals; for instance, bills of exchange.

**METALLIC MONEY.**

The coining or minting of metallic money is usually a rigidly protected monopoly of the State, the operations being carried out by the State Mint. The actual weight of each type of coin, and the degree of purity required, are prescribed by law, and must be maintained by the Mint subject to certain specified "remedy allowances" within the narrow limits of which the coins may vary in weight or in fineness.

Under Section 8 of the Coinage Act, 1870, any person was entitled to bring gold bullion to the Mint, and such bullion was to be assayed and coined, and delivered out to such person, without any charge for such assay or coinage. But according to the Gold Standard Act, 1925, this section has now ceased, except in so far as such bullion is brought to the Mint by the Bank of England. Any alloying metal required is still supplied free of charge by the Mint, and the provision of the Coinage Act, 1816, is still in force, to the effect that out of every 20 lb. troy weight of standard gold bullion there shall be produced 934 sovereigns and one half-sovereign. Thus, one ounce of standard gold is worth £3 17s. 10½d. at the Mint. After the passing of the Bank Charter Act, 1844, any person was entitled to demand from the Issue Department of the Bank of England notes in exchange for gold bullion at the rate of £3 17s. 9d. per ounce of standard gold, and notes were convertible into legal coin on demand at the Bank. But by the Gold Standard Act, 1925, the Bank of England is not bound to pay any note of the Bank in coin, and bank-notes are still to be accepted as legal tender.

The arrangements in force for the issue and maintenance of subsidiary coins are essentially different in character, primarily in consequence of the fact that whereas these are merely tokens and, therefore, only legal tender to a limited extent, gold coins are worth their face value and have an unlimited legal tender. Under the provision of the Act of 1870, whenever token coins are required to be struck, the requisite silver and bronze bullion is purchased in the market with sums advanced for the purpose out of the consolidated fund, and on issuing this coin at its full nominal value, the Master of the Mint pays the proceeds into the Exchequer under two heads—

1. Repayments of advances for the purchase of bullion ; and
2. Seigniorage, or as now defined in practice, the excess of the

circulation value of the coin above the purchase price of the metal used in its manufacture.

### PAPER CURRENCY.

Much of the circulating media of a country consists of bank-notes representing the metallic coinage. The holder of this paper money, as a general rule, is supposed to have the right of conversion on demand into gold or silver, held as a reserve against the issue. When this can actually be done, the paper money is said to be convertible. There is much to be said in favour of such a system. Paper money is economical and convenient ; it is easily issued and controlled ; there is no wastage of wear and tear, and no loss on re-minting as in the case of gold coins. The chief danger is the ever present temptation to issue more notes than the state of the gold reserve warrants, so that it becomes difficult or even impossible to redeem them. This increase of paper currency or credit beyond the limits of safety is termed *inflation*. Similarly, a decrease in the amount of paper money relative to the gold reserve is termed *deflation*. The usual cause of inflation is the failure of a government to balance its budget. Abnormal expenditure, such as that incurred in times of war, can rarely be met by taxes and loans, and the Government is compelled to resort to currency inflation. The Government brings the new currency to the market and demands the goods which it requires. The increase in total demand sends up the prices of those goods immediately affected, and the rise gradually percolates through industry, and there results a rise in the general level of prices. To meet this, still further inflation is necessary, and unless the movement is checked the currency becomes valueless ; it fulfils none of the functions of a good money.

### BILLS OF EXCHANGE.

The law relating to bills of exchange is set forth in the Bills of Exchange Act, 1882. According to this Act a bill of exchange is defined as "an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer." The Act goes on to say : "An instrument which does not comply with these conditions, or which

# COMPARISON OF CHIEF FORMS OF PAPER CURRENCY

|                           | Bills of Exchange                                                                                                                                                                                                                                                                              | Cheques                                                                                                                                   | Promissory Notes                                                                                                                                                                                                                                     | Bank Notes                                                                          |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| DEFINITION.               | An unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer. | A bill of exchange drawn on a banker payable on demand.                                                                                   | An unconditional promise in writing made by one person to another, signed by the maker, engaging to pay, either on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer. | A promissory note issued by a bank payable to bearer on demand.                     |
| STAMP DUTY.               | Ad valorem stamp, unless payable on demand or at sight.                                                                                                                                                                                                                                        | Specific duty of 2d. impressed or adhesive stamp.                                                                                         | Ad valorem stamp duty in all cases.                                                                                                                                                                                                                  | No stamp duty necessary.                                                            |
| DRAWER.                   | Creditor.                                                                                                                                                                                                                                                                                      | Debtor.                                                                                                                                   | Debtor.                                                                                                                                                                                                                                              | Bank of England.                                                                    |
| PARTIES.                  | Drawer, drawee, and payee.                                                                                                                                                                                                                                                                     | Drawer, drawee, and payee.                                                                                                                | Maker and payee.                                                                                                                                                                                                                                     | Maker and payee (the notes being payable to bearer, the payee is not named)         |
| LIABILITY FOR PAYMENT.    | The acceptor is liable, the drawer being only secondarily liable.                                                                                                                                                                                                                              | The drawer.                                                                                                                               | The maker.                                                                                                                                                                                                                                           | The Bank of England.                                                                |
| PRESENTATION FOR PAYMENT. | The bill must be presented for payment on the due date, or the drawer will be discharged.                                                                                                                                                                                                      | The drawer is not discharged for six years, unless through delay in presentation the drawer suffers loss through the failure of the bank. | The note must be presented for payment on the due date.                                                                                                                                                                                              | The note may be presented any time until called in by Royal Proclamation.           |
| REGULATING ACT.           | Bills of Exchange Act, 1882, Stamp Act, 1891, Finance Act, 1918.                                                                                                                                                                                                                               | Bills of Exchange Act, 1882, Stamp Act, 1891, Finance Act, 1918.                                                                          | Bills of Exchange Act, 1882, Stamp Act, 1891, Finance Act, 1918.                                                                                                                                                                                     | Bank Charter Act, 1844, Gold Standard Act, 1925, Currency and Bank Notes Act, 1928. |

orders any act to be done in addition to the *payment of money* is NOT a Bill of Exchange."

The law distinguishes between an inland and a foreign bill. The former is "a bill drawn and payable within the British Islands, or drawn within the British Islands on the person resident therein." All other bills are foreign bills.

The following is an example of an inland bill, viz.—

#### EXAMPLE OF INLAND BILL

|                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div style="border: 1px solid black; width: 80px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">             £500           </div>          | <div style="text-align: right; margin-bottom: 10px;"> <b>MANCHESTER.</b><br/> <i>24th June, 19..</i> </div> <p style="text-align: center;"> <i>THREE MONTHS after date pay to Messrs.<br/>             Edwards &amp; Co., or Order, the sum of FIVE<br/>             HUNDRED POUNDS for value received.</i> </p> <p style="text-align: right;"> <i>T. Sellers &amp; Co.</i> </p> |
| <div style="border: 1px solid black; width: 80px; height: 80px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">             5/-<br/>Stamp           </div> | <p><i>To</i></p> <p> <i>Messrs Byers &amp; Co.,<br/>             Manchester Road,<br/>             Bolton</i> </p>                                                                                                                                                                                                                                                               |

It will be seen that the above bill, or draft as it is called, conforms strictly to the definition as given above.

It is—

1. An unconditional order.
2. In writing.
3. Addressed by one person (T. Sellers & Co.) to another (Byers & Co.).
4. Signed by the person giving it (i.e. T. Sellers & Co.).
5. Requiring the person to whom it is addressed (i.e. Buyers & Co.) to pay at a fixed or determinable future time (that is, in three months).
6. A sum certain in money (that is, £500).
7. To or to the order of a specified person (that is, Edwards & Co.).

Bills of Exchange are *negotiable instruments*. There is a maxim of the English Common Law which applies to all ordinary goods

and chattels and to many documents, viz. : that no one can give another a thing which he does not own. Thus, if a person receives a bill of lading or dock warrant, both of which are transferable by endorsement, from a person who had no title to it, he would have no better title than the person from whom he received it. But this rule does not apply to negotiable instruments. The property in the latter is acquired by anyone who takes them *bona fide*, and for value, notwithstanding any defect of title in the person from whom he took them.

### PARTIES.

The parties to a bill of exchange are the drawer, the drawee, the payee, the endorser, the endorsee, the transferor, and the transferee. The *drawer* is the person who writes out and signs the bill. The *drawee* is the person on whom the bill is drawn. The payee is the person to whom the bill is payable. The *endorser* is a person who transfers his interest to another called the *endorsee*, by writing his name on the back of the bill. The *transferor* is a person who has transferred a bill by delivery, without endorsing it, and thus only guarantees the genuineness of the bill, but does not guarantee payment. Therefore, he would not be liable in case the bill were dishonoured, but he would be liable to his *transferee* if the bill were tainted with fraud, previous to his transferring it.

### STAMPS AND PENALTIES.

All bills drawn in the British Isles which are not *on demand* must be provided with an impressed stamp *before they are signed*. Any persons dealing with a bill not properly stamped are liable to a penalty of £100.

The stamp duties are as follows, viz.—

|                                                                                                      | s. | d. |
|------------------------------------------------------------------------------------------------------|----|----|
| Bills payable on demand or within three days after date or sight, for any amount . . . . .           | 2  |    |
| All other bills when the amount does not exceed £10 . . . . .                                        | 2  |    |
| When the amount is more than £10 but not more than £25 . . . . .                                     | 3  |    |
| "                    "                    £25 but not more than £50 . . . . .                        | 6  |    |
| "                    "                    £50                    "                    £75 . . . . .  | 9  |    |
| "                    "                    £75                    "                    £100 . . . . . | 1  | 0  |

For every additional £100 or a fractional part an extra shilling must be paid.

Foreign bills drawn and payable outside the United Kingdom, which are actually endorsed, negotiated, or paid in the United Kingdom, must bear the same stamp duty as an inland bill for sums up to £50 ; for £50 to £100 a 6d. stamp is necessary, and for sums above £100 an extra 6d. is required for every £100 or part thereof. When bills are drawn in a set, only the accepted part bears the stamp.

Cheques must bear a 2d. stamp for any amount. Promissory notes must bear the same stamp duty as bills of exchange, with the difference that those payable *on demand* or *at sight* for sums above £10 must bear an *ad valorem* stamp duty and not a 2d. stamp, as is the case with bills of exchange.

### DATE AND AMOUNT.

The date of the bill should be the same as the day of drawing, but it is not illegal to ante-date or post-date a bill. The words of the amount should be written close together to prevent alteration such as eight to eighty. A bill may be drawn in *any language* and any currency. When the sum is not in English currency, it is usual to calculate the amount according to the rate of exchange for short drafts at the place of payment on the day the bill is payable. Sometimes the rate of exchange is fixed beforehand, or the words "exchange as per endorsement" added.

### ACCEPTANCE AND ENDORSEMENT.

A bill should be presented for acceptance as soon as possible after receipt ; this is particularly important in the case of bills drawn "after sight." The presentation for acceptance must be during business hours ; in London it is customary to leave the bill on one day and to call for it on the next. Presentment through the post, however, is sufficient if agreed upon or if authorized by custom. The drawee usually writes or stamps "accepted" across the bill, mostly adding the name of a banker where it is payable, signs his name, and in the case of a bill after sight, the date. The name without any other wording constitutes an acceptance. The acceptance may be *general*, i.e. when the drawee accepts without any qualification ; or it may be qualified, i.e. when the acceptor makes conditions, agrees to pay only part of the amount, changes the date when due, etc. The holder of a bill may refuse to recognize a qualified acceptance, and treat the bill as dishonoured.

Bills are transferred by endorsement like cheques. Any endorser is *liable* to pay the bill to any subsequent holder, should the acceptor refuse to pay at maturity. If an endorser wishes to avoid responsibility, he must add after his name *sans recours* or "without recourse to me." Should the bill not be long enough for all the endorsements, a slip of paper called an *allonge*, is attached to it.

### PAYMENT.

Bills which are not payable on demand, at sight, on presentation, or within three days, are due three days after the expiry of the term on which they are drawn. These three extra days are known as days of grace, in regard to which the Bills of Exchange Act says: (a) "When the last day of grace falls on Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation . . . the Bill is due and payable on the preceding business day"; (b) "When the last day of grace is a Bank Holiday (other than Christmas Day or Good Friday) under the Bank Holidays Act, 1871, . . . or when the last day of grace is a Sunday and the second day of grace is a Bank Holiday, the Bill is due and payable on the succeeding business day." No days of grace, however, are allowed if the bill is made payable on a fixed day, e.g. "4th June, fixed." The bill must be presented for payment, just as for acceptance, during business hours, and on the day when it is due. Should this not be done, the drawee and the endorsers are freed from liability, and if the acceptor fails to pay, the loss falls on the holder.

### DISHONOUR OF A BILL OF EXCHANGE.

When a bill is refused acceptance or payment, it is said to be dishonoured. The holder of the bill should give notice of the dishonour immediately to the drawer and to each of the endorsers, otherwise he loses his claim on them for payment. It is, however, usual for the holder merely to notify the person from whom he receives the bill, who in his turn notifies the preceding endorser, and so on until all have received notice. It is usual to note an inland bill in addition to notifying the parties, and it can also be protested though it is not legally necessary to do either. A foreign bill *must* be protested, if the holder wishes to retain his rights

against the drawer and the endorsers. The noting is done by a Notary Public, who writes on the face of the bill the facts of the refusal to accept or pay, with the date, the reference number in his register, his charges and initials, and this is accepted as evidence that the bill has been duly presented. The protest is a certificate attesting the dishonour of the bill, generally made by a Notary, but in the event of a Notary not being available, it can be made by any responsible householder in the presence of two witnesses. After protesting, a re-exchange account is made out, debiting the original drawer with expenses, and a re-draft is made on him for the amount.

#### **REFEREE IN CASE OF NEED.**

A phrase, such as "In need with Messrs. Brown and Jones for the honour of John Smith," is to be found on many foreign bills. If a foreign bill contains several endorsements, it will sometimes bear several names in *case of need*. Any party to a bill can pay it for the honour of the drawer or of any endorser, but it is more usual to apply first to the "references in case of need." In the event of a bill being dishonoured by non-acceptance or non-payment, it is a great saving of expense to the drawer or endorser if someone pays it for his honour. It is also important for his own credit as a merchant.

#### **ACCOMMODATION BILLS.**

Bills are often drawn, accepted, and put into circulation without any consideration passing between the parties. Such bills are called "accommodation bills," "fictitious bills," "kites," and "windmills," and the parties to them are known as "accommodation parties." If no value has been given, nobody is liable to pay the amount of such a bill; but if in passing from hand to hand, value is eventually given, a holder for value can sue any of the signatories, even if he knows that the bill was originally an accommodation bill.

#### **CHEQUES.**

According to the Bills of Exchange Act, 1882, a cheque is defined as "a bill of exchange" drawn on a banker payable on demand. All cheques must bear a 2d. stamp, which may be embossed or

affixed. The stamp is generally impressed, but if adhesive it must be cancelled.

Banks supply their printed forms of cheque free of charge to their customers in books of twelve and upwards, debiting their account only for the amount of the embossed stamp. The law permits a cheque to be drawn on any piece of paper which is duly stamped. It is, nevertheless, best to make a rule of using only the banker's regular printed forms. The cheques of most banks are similar in form ; they vary only in the name of the bank, the type, and sometimes in the colours in which they are printed.

### **BEARER AND ORDER CHEQUES.**

There are two kinds of cheques, viz.—

1. Cheques to bearer ; and 2. Cheques to order.

A bearer cheque may be paid to anybody presenting it, but an order cheque must be endorsed by the payee, before the bank will pay the money. As this increases the safety, order cheques are more frequently used. An example of an order cheque is shown on page 102.

In drawing a cheque the following points should be observed, viz.—

1. The date should be the same as the day of drawing, but it is not illegal to ante-date or post-date a cheque. Bankers generally refuse to pay a cheque which is more than six months old.

2. The words of the amount should begin close to the left-hand side, so that the words and figures cannot be added to fraudulently, and the words should be written close together to prevent alterations. If the words and figures differ, the banker could pay the sum indicated by the words, but would generally return the cheque marked “irregular” or “words and figures differ”

Should the banker not have enough funds to the credit of the drawer to meet the cheque, he returns it marked R/D. (i.e. Refer to Drawer), or N/S. (i.e. Not Sufficient Funds).

### **ENDORISING A CHEQUE.**

A *bearer* cheque usually requires no endorsement, but most people, even banks, ask for one before accepting the cheque, in order to protect themselves against fraud. If the payee simply signs his name on the back of an order cheque, it is called a *blank*

2873404

London, 4th February 1916

National Provincial Bank, London

185, ALDERSGATE STREET, E.C. 1.

Pay to the order of *John Henry Jones* £200 or Cash



HEAD OFFICE, 12, BISHOPSGATE, LONDON, E.C. 2.

AN ORDER CHEQUE

endorsement, and the cheque can pass from hand to hand like a bearer cheque. If he writes on the back "Pay Messrs. John Merchant & Co. or Order," followed by his signature, it is called a "special" endorsement. The cheque can then pass to another person only after it has been provided with the endorsement of Messrs. John Merchant & Co. If the endorsement runs "Pay Messrs. John Merchant & Co. *only*" it is called restrictive, and the cheque cannot be negotiated further.

The banker cannot be held liable for cashing a cheque with a forged endorsement, if he acts in good faith ; but should he pay a cheque on which the *signature* of the drawer is forged, he is held responsible. Where a cheque is made payable to order and the payee or endorsee is wrongly designated, or his name is misspelt, he may endorse the cheque with the wrong spelling and then add his properly spelt name underneath. On page 104 are the principal kinds of endorsements.

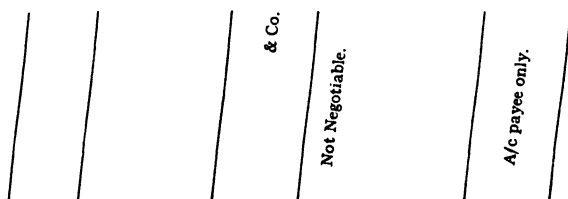
### CROSSING.

A further precaution to ensure the safety of a cheque is to cross it. A crossed cheque will be paid only to a banker. The holder of it cannot receive money for it at the bank ; he can only pay the cheque into his banking account, and the bank credits his current account with the amount. For the sake of safety most cheques are crossed. Should, however, a person who has no banking account receive a crossed cheque, he must find a friend with a banking account who is willing to do him the favour of advancing the money and passing the cheque through his own account. This is often very inconvenient and difficult.

Although many variations in the form of the crossing can be found, there are really only two kinds of crossings on cheques, viz., general and special.

### EXAMPLES OF CROSSINGS

#### GENERAL CROSSINGS



### EXAMPLES OF ENDORSEMENTS

| Kind.               | Description.                                                                             | Example.                                                                             | Effect.                                                                                                                                   |
|---------------------|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| GENERAL or<br>BLANK | A single signature signifying no endorsee.                                               | On a cheque payable to John Lewis—<br>"John Lewis."                                  | This renders an order cheque payable to bearer, and it may thereafter pass by delivery without endorsement.                               |
| SPECIAL             | This gives the name of an endorsee.                                                      | On a cheque payable to John Lewis—<br>"Pay Thomas Smith<br>or Order,<br>John Lewis." | A special endorsement on an order cheque previously endorsed in blank has the effect of making the cheque again payable to order.         |
| RESTRICTIVE         | This prohibits any further negotiation of the cheque.                                    | On a cheque payable to John Lewis—<br>"Pay Thomas Smith only,<br>John Lewis."        | It indicates that the endorsee has no power to transfer the cheque.                                                                       |
| SANS RECOURS        | These words indicate that the transferor negatives his personal liability on the cheque. | John Lewis<br>Sans Recours.                                                          | Subsequent holders take the cheque with notice of the transferor's immunity from the liability which would attach in the ordinary course. |

## SPECIAL CROSSINGS

|                        |                                                    |                                                                     |
|------------------------|----------------------------------------------------|---------------------------------------------------------------------|
| The Midland Bank, Ltd. | The Midland Bank, Ltd.,<br>St Mary Street, Cardiff | The Midland Bank Ltd,<br>St Mary Street, Cardiff,<br>A/c payee only |
|------------------------|----------------------------------------------------|---------------------------------------------------------------------|

Cheques which are not crossed are called *open cheques*. A cheque can be crossed by any endorser, but the crossing is usually done by the drawer. In a special crossing it is permissible to write only the name of the bank and to omit the parallel transverse lines. This kind of crossing is rarely found.

**NOT NEGOTIABLE.**

The addition of the words "not negotiable" to a cheque, whether crossed or not, does not prevent the cheque being negotiated in the sense of being passed to a new holder, but anyone who accepts the cheque does so at his own risk, i.e. subject to the defect of title of the transferor. The cheque is still *transferable*, but it has lost the quality of negotiability. The following explanation will make this clear. On an ordinary cheque any one of the endorsers is liable to pay its full value, should it not be paid when presented. If "not negotiable" is written on a cheque, the last holder can recover the value only from the person from whom he received it, and each other endorser from his predecessor. Thus, in the case of a cheque having been stolen, and of the thief putting a false endorsement on it, the man who was careless enough to take it from the thief is the loser. If "not negotiable" did not appear on a cheque, the holder could not lose, provided he had accepted the cheque in good faith.

**FOR ACCOUNT OF PAYEE ONLY.**

Cheques are sometimes crossed for "account of payee only," or for the account of a special person or firm such as "for account of Messrs. Jones & Co." This phrase is written in the crossing of the cheque with the purpose of ensuring its safety. The effect of this crossing is that the amount is credited only to the

payee, and that the cheque does not pass from hand to hand by endorsement.

### CHANGING A CROSSED TO AN OPEN CHEQUE.

A crossed cheque can be changed to an open one if the drawer writes across the face of it the words "pay cash" and then adds his signature. Such alterations should be avoided as far as possible.

### PRESENTATION AND STOPPING OF PAYMENT.

A cheque should be presented for payment within a reasonable time, that is, in most cases not later than the day following its receipt. This is, however, often not done, especially when the payee feels sure of the solvency of the drawer and of the bank.

If the drawer of a cheque learns that it has been stolen or lost, he should instantly instruct his banker to stop payment. If he thinks fit, he can also stop payment for other reasons.

The banker must refuse payment of a cheque in the following cases, viz.—

1. Where insufficient funds are in his possession.
2. If he receives instructions from the drawer to stop payment.
3. If he receives notice of the drawer's debt, bankruptcy, or certified insanity.
4. If he is served by an order from the court (i.e. "garnishee" order), forbidding him to part with any of the customer's money.
5. If it is clear that the money is being drawn for an unlawful purpose.
6. If the cheque is torn in pieces.

### PROMISSORY NOTES.

The Bills of Exchange Act, 1882, defines a promissory note as "an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money, to or to the order of a specified person, or to bearer." Promissory notes differ from bills of exchange in so far as they are only *promises* to pay; in consequence they require no acceptance. They are negotiable instruments, and most of the regulations applying to

bills of exchange also apply to them. The usual form is as follows, viz.—

## EXAMPLE OF PROMISSORY NOTE

|                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div style="border: 1px solid black; padding: 5px; width: 80px; margin: 0 auto;">£500</div>          | <div style="text-align: right; margin-bottom: 10px;"><b>BOLTON.</b></div> <div style="text-align: right; margin-bottom: 10px;"><i>24th June, 19..</i></div> <div style="text-align: center; margin-bottom: 10px;"> <i>THREE MONTHS AFTER DATE we promise<br/>to pay to Messrs. Edwards &amp; Co., or Order, the sum<br/>of FIVE HUNDRED POUNDS for value received.</i> </div> <div style="text-align: right; margin-bottom: 10px;"><i>B. Byers &amp; Co.</i></div> |
| <div style="border: 1px solid black; padding: 5px; width: 80px; margin: 0 auto;">5/-<br/>Stamp</div> | <div style="margin-top: 10px;"> <i>To</i><br/> <i>Messrs. T. Sellers &amp; Co.,</i><br/> <i>Manchester.</i> </div>                                                                                                                                                                                                                                                                                                                                                 |

After the first endorsement they practically become bills of exchange. A promissory note may be made by two or more makers and they may be liable thereon jointly, or jointly and severally. When a note reads "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note.

A well-known form of promissory note is a Bank of England note. These notes are payable to bearer on demand, but are free from stamp duty by special Act of Parliament.

**I OWE YOU.**

An IOU is not a negotiable instrument, nor is it a promise to pay; in consequence it requires no stamp. It is only an acknowledgment of a debt. The usual form is as follows, viz.—

## AN EXAMPLE OF AN IOU

|                                                                                                                                                                                     |                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| <div style="text-align: right; margin-bottom: 10px;"><i>BOLTON, 24th June, 19..</i></div> <div style="text-align: center; margin-bottom: 10px;"><i>I OWE YOU FIVE POUNDS.</i></div> | <i>John Byers.</i> |
| <div style="margin-top: 10px;"> <i>To</i><br/> <i>John Evans, Esq.,</i><br/> <i>Manchester.</i> </div>                                                                              |                    |

The amount is often inserted in figures as well as in words.

## TEST PAPER 10

1. What are the obstacles in the way of exchange, and how have they been overcome by civilized nations?

2. Describe the characteristics of a good (a) common medium of exchange and (b) standard for deferred payment. To what extent are they possessed by the things that discharge these functions in England at the present time?

3. Write a short note on each of the following: (a) token money, (b) Mint price of gold, (c) legal tender, (d) the pound sterling, and (e) remedy allowance.

4. What do you understand by the inflation of a currency? How would you measure the degree of inflation of a country's currency? Show how some classes benefit whilst others lose when inflation takes place.

5. Is paper money "good" money? How would you distinguish between "good" and "bad" money? Illustrate from the money in use at the present time.

6. Describe and distinguish between (a) a shilling, (b) a sovereign, (c) a pound note, (d) a five pound Bank of England note, (e) a cheque. Point out their respective uses.

7. What is the practical utility of bills of exchange? Make out a bill for £280 drawn at three months from 1st January by W. Stanley on Thos. Williams and accepted by the latter payable at the Security Bank, Liverpool. State also the due date and the amount of the stamp duty.

8. Explain carefully the following in regard to bills of exchange—

(a) Signature is essential to liability.

(b) Acceptance of a bill may be qualified or conditional, the drawing never can be.

(c) The requisites of a valid endorsement on a bill.

9. What is the effect of crossing a cheque and adding the words "not negotiable" to the crossing? Does the addition of these words in any way affect the transferability of the instrument?

10. Draw an order cheque and cross it in the way which you consider is best adapted to secure its safe transmission through the post.

11. Under what circumstances can a banker refuse payment of his customers' cheques?

12. Distinguish between (a) a bill of exchange and a promissory note, (b) a general and qualified acceptance, (c) a special and a blank endorsement, (d) an open and a crossed cheque.

## CHAPTER XI

### THE POST OFFICE IN THE SERVICE OF THE TRADER

THE term "post" has different meanings according to the various stages of human development ; the idea underlying the word is that of a regular transmission of written or printed news by means of an organized system of transport. To this principal aim other functions have gradually been added, especially in modern times. Even in the period of antiquity the rulers of States considered the possession of a reliable intelligence service as an important means for the maintenance of law and order. Hence the first coherent arrangements for the establishment of a safe and steady intelligence service owe their origin to Government enterprise ; they were at first employed exclusively in the service of the ruler or of the State.

Among ancient peoples, such as Egyptians, the Babylonians, the Assyrians, the Persians, and the Romans, as also in ancient Peru and Mexico, there were in existence postal services based on a system of relays in order to accelerate the transmission of orders, reports, and other news of State. These services did not extend so far as to be used by private persons, for there was then scarcely any necessity for such an arrangement, as the social and economic relations of the people moved in narrow local circles. Moreover, slavery was an obstacle to the free development of trade and manufactures, and the period of antiquity was poor in mechanical inventions and in the arts of communication. Neither did the Middle Ages create a large general demand for such means of intercourse. It was not until the decay of feudalism that civilization began to develop a spirit of free citizenship in the towns, and with the Era of Discovery and Invention new visions were opened to the human mind. The introduction of paper made of rags facilitated the spread of printing which became a powerful auxiliary in the growth of ideas and in the development of civilization. At this period intercourse among the peoples multiplied to such an extent that public institutions for the dispatch of written intelligence became a general necessity.

The most significant increase in the extension of the facilities afforded by the post office, however, was made during the nineteenth

century. In spite of many improvements which had already been introduced, there were in existence complicated rates of charges for the conveyance of letters, determined not only by weight but also by the distance to be travelled. The expense of letter postage was so high that before 1840 a letter weighing 1 oz. cost fourteen pence for a distance of 200 miles. For the conveyance of letters abroad the postage was still higher. With such heavy charges a great extension of the letter post was rendered impossible, especially among the poorer classes. Attempts were therefore made to facilitate the letter service by the gradual reduction in the rates of postage and in the scales of weight, but the effects of these improvements were insignificant in comparison with the immense result achieved by the adoption of a uniform low rate of postage for all inland distances. The passing of this far-reaching measure was due to Rowland Hill, who, by his reform of the postal system in 1840, introduced into England a uniform rate of postage of 1d. for letters not exceeding  $\frac{1}{2}$  oz. in weight for all distances within the United Kingdom. In the same year the first postage stamps were used, and this brought about an extraordinary simplification in the dispatch of letters.

### **FUNCTIONS OF THE POST OFFICE.**

The British postal system has been built up step by step on experience in the various activities in which it serves the trader and the general public. These activities are confined mainly to four departments, and to these is added—making a fifth section—a number of miscellaneous services—

1. The carrier or postal department.
2. The money order and savings bank department.
3. The telegraph department.
4. The telephone department.
5. Miscellaneous services.

There are many subsidiary activities, but it is the first four of these departments which are of the greatest use to the trading community and the general public.

The great rendezvous for the performance of these services between the post office and the general public is the public counter, around which are conducted the chief activities of the post office.

**1. The Carrier or Postal Department.** Among the services rendered by this department the most important is the carriage of letters and parcels. This service may be divided into—

- (a) The inland and foreign letter post, and
- (b) The inland and foreign parcel post.

The former caters for many kinds of correspondence, but the two main classes are the ordinary and the registered letters.

In the *registered letter service* an extra fee is charged over and above the ordinary postage. For foreign letters there is a further service, called the “insurance letter service,” under which a letter may be insured for the declared value up to certain limits by payment of an extra fee. The maximum amount of compensation obtainable is £400 on payment of an extra fee, over and above the postage, of 1s. 11d.

*Printed papers, circulars, and newspapers* are conveyed at a much cheaper rate than is ordinary correspondence, but *inland samples* are carried at ordinary letter and parcel rates. It is understood, however, that the cheaper rates are not a paying proposition from the standpoint of the post office, although it is advisable to continue these services in the general interests of trade.

There is also the *express service* whereby, for the payment of extra fees on a mileage basis, the post office undertakes the special delivery of any correspondence so prepaid. In return for the fees paid, letters and parcels are either conveyed by a special messenger all the way or are delivered by a special messenger after receipt at the office of delivery. Also messages may be telephoned to post offices, there to be written down and delivered as express letters.

The *parcel post* is divided into two main sections, viz. inland and foreign. These are further subdivided into (a) ordinary and (b) registered or insured parcels. These services do not include collection, for the parcels must be handed in at the post office, although it need not necessarily be the head office of the town. For foreign letters and parcels there is also a special air mail service whereby, for the payment of extra fees, packages plainly marked and prepaid for the correct amount of postage are conveyed by aeroplane between certain points. For urgent business correspondence this service is invaluable.

An innovation of 1926 was the establishment of the cash-on-delivery service. By this service tradesmen or others may send

parcels and the price will be collected from the addressee and remitted to the sender by the post office. A small charge in addition to the usual postage is made and must be prepaid by the sender. This service is greatly utilized by the large mail-order firms.

## 2. The Money Order and Savings Bank Department.

*Money Orders.* In this section both the inland and foreign branches are again prominent, and in each of them there are two subdivisions, viz. ordinary and telegraphic. In the case of the latter, money is transmitted by means of a telegraphic advice which, in addition to the ordinary poundage, has to be paid for by the sender of the money. The foreign telegraphic money order service is restricted to certain specified countries. *Postal Orders* are also sold in this department. This is a very popular service since orders can be obtained for any amount in multiples of 6d. up to 20s. and for 21s. Any amount less than 6d. can be added to the order by affixing ordinary postage stamps—but such stamps must not exceed 5d. in value on any one order.

*Savings Bank.* This branch of work serves a useful purpose in that it collects many of the smaller savings which would otherwise remain idle. The rate of interest is usually lower than that prevailing among other bankers, but the Post Office Savings Bank seems to keep a strong grip over its customers. This can be accounted for partly by the fact that it is a Government undertaking, and many people consider it to be safer than other banks. It also deals with the sale of Government stock.

*Licences.* Most of the licences issued by the post office are indicated in the diagram (inset). It should be noted, however, that only *renewals* of motor vehicle licences are issued by the post office, the original licence is taken out through the local government authority of the area in which the licence is desired. In the case of other licences, both the original issue and the renewal are effected through the post office.

**3. The Telegraph Department.** The British telegraph service is undoubtedly one of the finest in the world, and although it is worked at a loss, this is more than recompensed by the enormous benefit which accrues to the British trader. The numerous functions it performs are shown in the diagram on inset facing this page,



[illegible]



from which it will be seen that there are four important offshoots under this heading, viz. inland telegrams, foreign telegrams, radio telegrams, and phonograms.

Of the inland telegrams the most important are those of ordinary everyday use in business and social intercourse; these pass over the inland telegraph wires and constitute an indispensable link in the machinery of business. Next come the *Press telegrams* which are concerned with the transmission of items of news for publication in the various newspapers. They also serve the interests of business in that they assist in the speedy publication of market reports, Stock Exchange quotations, and other commercial information. *Night letter telegrams* may be transmitted between the large towns whose telegraph offices are open all night to the public (e.g. Cardiff, Manchester). The rates for these services are—

|                          |                                                                                                                                              |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Ordinary telegrams .     | 1s for twelve words or less, and 1d. for each additional word over twelve.                                                                   |
| Press telegrams .        | 1s for every eighty words between the hours of 6 o p m. and 9 o a m, and 1s. for every sixty words between the hours of 9 o a m and 6 o p m. |
| Night letter telegrams . | 1s for the first thirty six words, and 1d. for every three words above thirty-six.                                                           |

Of the *foreign telegrams* there is a great variety of rates and services, beginning with urgent telegrams and ending with the daily letter telegrams. In the case of urgent and full-rate messages, ordinary language and code or cipher can be used, whereas in the other section ordinary language only is permissible. For urgent telegrams, which are entitled to absolute priority over other telegrams on foreign telegraph lines, a triple rate is charged; this is not the case, however, on English land lines where the messages have to take their turn with other telegrams. For business matters of pressing importance this service is brought into frequent use.

The most popular branch is the full-rate service in which the charges vary according to the country to which the telegrams are dispatched. They range from 2½d. per word for certain European countries to as much as 5s. 7d. per word for countries situated at a greater distance. There is also a deferred or half-rate service in operation between this country and extra-European countries. Messages sent by this service are liable to a delay in favour of more highly paid telegrams.

The *Press telegram service*, as its name implies, is for matter

intended for publication in newspapers registered either in this country or abroad. The rates for this class of service varies according to the country to which the messages are addressed.

The *week-end, night letter*, and *daily letter telegram services* are cheaper than any of the preceding services, excepting those of Press telegrams. In each of these three cases, a minimum number of words is stipulated, and where the stipulated number is not reached a minimum fee is chargeable. Such telegrams are transmitted through the Central Telegraph Office in London, or if so marked, through one of the commercial cable companies. The week-end telegrams for foreign transmission are withheld until the following Saturday midnight, when they are dispatched and normally delivered at their destination by the first post on the following Monday morning.

The *radio telegram service* is used for communication between certain established coast stations for wireless telegraphy and ships at sea which are fitted with wireless telegraph apparatus. This service is subdivided into three main sections. The first is a service for the dispatch of telegrams between the coast stations of this country and ships which are within range of the particular station. The range of each of these stations is about 250 miles. The charge for this service is 11d. per word. The second is a service by means of which messages can be transmitted to these stations to short voyage ships, a list of which can be consulted at any telegraph office. A reduced charge per word is made for these telegrams. The third service enables long distance communication to be made with ships at sea. This is effected through high power stations which have a range of about 2,500 miles. The charge per word for these telegrams is usually about 1s. 6d., but in the case of certain liners it is reduced to 11d. per word.

*Phonograms* are practically identical with the ordinary foreign and inland telegrams, except that instead of handing in the message at a post office, it is telephoned and then taken down in the message room at the post office. The charges and restrictions applicable to other telegrams apply also to these. Local telephone messages are those telephoned to the message room for delivery by messenger, the charge for which is 6d. per mile for the distance he covers—no charge being made for the writing down of the message by the post office authorities.

**4. The Telephone Department.** In the case of local telephone calls, the caller pays for the service by placing two pennies in the special coin box affixed to the call office. With trunk calls the caller usually passes his call to the clerk at the telegraph counter ; after collecting the appropriate charge this person then puts the call through the trunk exchange. When the call matures the exchange notifies the telegraph counter clerk who informs the waiting caller to which box his call will be switched. To this branch of work a number of other services are attached, such as telephoning express letters to other towns for delivery by a special messenger. The charges in this case include the usual trunk call fee plus 6d. per mile for delivery at the other end. This charge must be paid by the person originating the call.

**5. Miscellaneous Services.** Under this heading we may include, in the first place, the sale of various kinds of stamps, such as ordinary postage stamps, National Health Insurance and Unemployment stamps. In connection with these, the post office also issues the necessary cards to which the stamps are affixed. The post office also assists other Government departments by the sale of stamps in payment, for instance, of the entertainment duty, and also of the income-tax. It should be noted, however, that in so doing the post office does not make itself liable for the administration of these services, concerning which inquiries should be addressed to the respective departments, such as the National Health Insurance or Inland Revenue departments. The sale of *stationery* is also undertaken by the post office, and in many respects it is cheaper than that obtainable outside. The *poste restante* service is most convenient for people who have to travel, and as no fee is chargeable it is very popular. The provision of *private boxes* and *bags* is a service much used by the large business houses. Here the customer's correspondence is put into a special box or bag and kept at the post office until sent for by the person concerned. For this service an annual fee is payable. At all large post offices application forms for the taking out of *patents* may be obtained, and here also public notices and papers are exhibited.

Since the beginning of the war, the payment of pensions has greatly increased owing to the large number of disability pensions granted to ex-soldiers and sailors. Old age and widows' and orphans'

pensions are also paid through the post office. Inquiries concerning such pensions, however, should be addressed to the proper authority, that is, the Pensions Committee or other body which may have authorized the payment.

#### TEST PAPER 11

1. Trace the chief landmarks in the evolution of the postal system.
2. Name three of the principal ways in which the post office helps the modern trader.
3. What are the main functions of the post office? A commercial traveller from Manchester is in Leeds and is in urgent need of funds. In what ways could the post office render him assistance?
4. Consider how far it is possible to use the post office as a substitute for a bank in ordinary business transactions.
5. The main branches of commerce are trade, banking, and finance, transport and insurance. Show how each of these is or has been represented by the post office.
6. Under what circumstances are circulars sent through the post without bearing adhesive or embossed stamps on their covers?
7. Mention three purposes for which licences can be obtained at post offices.
8. What are radio telegrams? What do they cost?
9. Alfred Jones wishes to send 7s. 6d. to John Roberts in another town. Jones knows nothing about postal orders, and he does not think that Roberts does. Write careful instructions, so that Jones, reading them, will know what a postal order is, how to obtain one, what to do with it, and what to tell Roberts, so that the latter may receive the money.
10. Explain the difference between a postal order and a money order. If you were sending £3 7s. 6d. by post to a merchant in Birmingham, which of the two would you use (assuming you have no banking account)? Give reasons for your choice.
11. Consider how far it is possible to use the post office as a substitute for a bank in ordinary business transactions.
12. You have 10,000 circulars to be sent through the post. How can you avoid the trouble of stamping them, and what are the regulations you would have to observe?
13. It is important that a letter addressed from London to Liverpool should reach its destination at the earliest possible moment. It is too late for posting in the ordinary way. What alternative services are available?
14. If you were in Manchester and wished to communicate as quickly as possible with Leeds, Penzance, and New York, what would you do? Give reasons. Time, 10 a.m.

## CHAPTER XII

### THE BANKER IN THE SERVICE OF THE TRADER

THE sphere occupied by the banking business is so different from that of ordinary trade that a division of labour between banking on the one hand and trade on the other has become absolutely essential. As a matter of fact, there is hardly any trading concern which does not directly or indirectly avail itself of the services of a bank. By virtue of its organization the banking undertaking can ensure that payments are made in the quickest and cheapest possible manner. It stamps with its impress the currency used in trade and thus converts it into a safe and universally accepted medium. It finances the import and export transactions and thus assists in reducing the risk of credit to a minimum ; it brings to the entrepreneur the capital which he is required to borrow for the management of his business and renders him indispensable services in the formation, extension, reconstruction, and liquidation of his business ; moreover, the banking undertaking procures reliable information for the trader and gives him expert advice in the investment of capital.

#### **BANKING, A SPECIALIZED BRANCH OF COMMERCE.**

The trader depends upon the banking concern in the same way as he avails himself of the services of forwarding agents, transport institutions, brokers, insurance companies, and information bureaux. In fact, trade is a separate activity distinct from that of banking ; hence a division of labour is absolutely necessary between these two different branches of commerce. This division of labour, however, implies a mutual dependence, as the trader can scarcely carry on his business without the assistance of a bank, so the latter can survive only by maintaining its connection with traders.

#### **THE SERVICES OF THE BANKER.**

One of the most important services which a bank renders to a trader is to afford him facilities for the opening of a current account. This enables the trader to deposit money with the bank and thus always have it in safe keeping. Furthermore, by means of

cheques the trader can transfer this money to his debtors without having the inconvenience of handling it. By this means the security of his cash is increased.

A banking account is opened by paying in cash, cheques, or bills to the credit of a customer. The amount of each sort is written on a printed slip, which consists either of a single leaf or is taken out of a book bound with counterfoils. A specimen paying-slip is shown on the opposite page. The classification of payments into notes, gold, silver, London and country cheques, etc., facilitates the work of the bank in dealing with the various kinds of payments, and in checking the cashier's and other accounts. The amounts paid in become the property of the bank to whom the customer has entrusted the money, subject to the condition that the bank must repay on demand, which is usually made when a cheque is drawn. Such an account is known as a *current account*, since the customer can add to it or withdraw the whole or part of it without giving notice. As a rule, the banker gives little or no interest on such an account.

When money is lodged at interest with the banker and cannot be withdrawn without notice being given, such an account is known as a *deposit account*, and must be kept separate from the current account.

On opening a current account, the prospective customer is required to sign a special book known as the "*Signature Book*," which is kept by the bank for the purpose of verifying the signatures of its customers. A book of cheque forms is supplied to the customer, and he is charged with the price of the stamps at the rate of 2d. for each cheque. As soon as the account is opened the customer is furnished with a *Pass Book* in which is recorded the amounts received and paid out by the banker on his behalf. The first page of the *Pass Book* is usually headed as shown on page 120.

According to this method, cheques drawn by the customer are put to his debit on the left-hand side, and the amount he pays in are put to his credit on the right-hand side. In other words, it is a copy of the customers' account in the bank ledger.

A customer such as the above would enjoy a further facility. If he found himself in want of cash and without a sufficient balance standing to his credit at the bank, he could arrange with his bankers to let him overdraw his account in exchange for securities which

THE NORTHERN BANKING  
COMPANY, LIMITED.

10 Jan 19

Memorandum of Receipt of

£65 4 4

for Credit of John Bull & Co

to whom the same is to be  
accounted for.

T. J Teller

Credit

John Bull & Co

10 Jan. 19

In account with the NORTHERN BANKING COMPANY, Ltd.

| Cheques on<br>London and<br>Country<br>Banks |      | Cheques on<br>Local Banks<br>and<br>Branches |      | Bank of England Notes, £5 etc |                         | £  | s. d. |  |
|----------------------------------------------|------|----------------------------------------------|------|-------------------------------|-------------------------|----|-------|--|
| £                                            | s d  | £                                            | s d  | Notes {<br>£1<br>10/-         | Gold<br><br>Silver, etc | 9  | —     |  |
| 15                                           | 12 2 | 5                                            | 14 2 |                               |                         | 7  | —     |  |
|                                              |      | 10                                           | 8    |                               |                         | 5  | —     |  |
|                                              |      |                                              |      | Total Cash                    |                         | 2  | 10 —  |  |
|                                              |      |                                              |      | Local Cheques                 |                         | 33 | 10 —  |  |
|                                              |      | 16                                           | 2 2  | London and Country Cheques    |                         | 16 | 2 2   |  |
|                                              |      |                                              |      | Bills                         |                         | 15 | 12 2  |  |
|                                              |      |                                              |      |                               |                         | —  | —     |  |
|                                              |      |                                              |      | Signature of person paying in |                         | 65 | 4 4   |  |
|                                              |      |                                              |      | John Smart                    |                         | 4  | 4     |  |

|                                                                                                                                                                                         |          |    |    |    |        |            |    |    |    |  |  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----|----|----|--------|------------|----|----|----|--|--|
| <p style="text-align: center;"><i>Mr. John Trader, Queen Street, Cardiff,</i><br/> <i>in account with</i><br/> <b>LLOYDS BANK LIMITED,</b><br/> <i>89 St. Mary Street, Cardiff.</i></p> |          |    |    |    |        |            |    |    |    |  |  |
| <i>Dr.</i>                                                                                                                                                                              |          |    |    |    |        | <i>Cr.</i> |    |    |    |  |  |
| 19....                                                                                                                                                                                  |          | £  | s. | d. | 19.... |            | £  | s. | d. |  |  |
| Jan. 5                                                                                                                                                                                  | Mountjoy | 5  | —  | —  | Jan. 4 | Funds      | 60 | —  | —  |  |  |
| 6                                                                                                                                                                                       | Fowler   | 20 | —  | —  | 8      | „          | 10 | —  | —  |  |  |
| 7                                                                                                                                                                                       | Self     | 5  | —  | —  |        |            |    |    |    |  |  |

he could deposit with the banker. Bankers also perform a useful function in connection with bills of exchange; they will collect them for the trader upon maturity, and will also accept bills for the trader.

Moreover, bankers will remit money abroad. They will put it to the credit of the trader in foreign banks, and in cases where he travels abroad they will furnish him with letters of credit to its foreign correspondents so that he can obtain funds from them when required. Trade is greatly facilitated by the practice of negotiating documents of title, such as bills of lading, through a bank, and the bankers are always ready to negotiate such documents for their customers, thus giving added security to transactions.

It is often very convenient for the trader to have bankers' references when he contemplates the opening up of business with a new client, and risk is mitigated by the confidential report of the bankers on the financial position of a prospective customer.

#### **THE BANK BALANCE SHEET.**

The analysis of the balance sheet of a joint-stock bank illustrates clearly the functions of the banker as a professional borrower and lender. Taking the balance sheet on page 121, we will first deal with the *liabilities* or *borrowing* side. As the bank in question is a limited liability company, it is therefore a distinct legal entity quite apart from its proprietors. Consequently, it has liabilities not only to those with whom it conducts its affairs—principally, its depositors—but also in a secondary sense to its owners for capital supplied and profits retained in the business.

## STATEMENT OF LIABILITIES AND ASSETS, 31st DECEMBER, 19...

9--(6075A)

*Capital Paid up* represents the permanent investment of the shareholders, the proprietors of the bank, in the business being carried on under the company title. There is an uncalled liability on each of the £12 shares, which furnishes an additional protection for the depositor. The other shares were issued to meet a popular demand for a fully paid bank share.

*The Reserve Fund* has been built up out of premiums on new share issues and allocations from profits otherwise available for distribution.

*Dividend Payable* comprises the amount to be disbursed to shareholders as final dividends from the previous year's net earnings.

*The Balance of Profit and Loss Account* is that amount of profits earned in past years which is not immediately to be distributed nor definitely allocated to reserve.

These items may be regarded as a guarantee fund built up by the owners of the bank for the protection of its depositors.

*Current, Deposit, and other Accounts* constitute the amount due by the bank to its customers, and it is by the judicious and skilful use of the funds they represent that the business of the bank is conducted. They are lodged with the bank under varying terms of interest and repayment. The number of accounts with the Midland Bank is considerably in excess of a million.

*Acceptances and Engagements* are in the nature of a contingent liability, the bank having made itself responsible, as for example, by accepting bills, for certain obligations of customers of undoubted integrity. The item is balanced on the assets side by the liability of the customers to provide the funds to meet the obligations in question.

Taking next the *assets* or *lending* side of the bank, it will be seen that the guiding principle in the distribution of the assets is to keep the bank financially strong, and at the same time to help the country's trade and industry.

*Coin, etc., and Balances with the Bank of England* include the supply of cash held at each branch to meet the current needs of customers, and the reserves maintained in different centres and at head office to provide against ordinary and extraordinary demands.

The cash reserve of a bank is the basis of its stability. The Midland Bank traditionally maintains an exceptionally strong

reserve position, and for many years never less than £50,000,000 has been kept in this form to meet customers' requirements.

*Balances with, and Cheques in Course of Collection on other Banks* are claims on other banks which for the most part become cash within three days.

*Money at Call and Short Notice* consists of loans to the money market, that is, to billbrokers, stockbrokers, discount and other financial houses. They are invariably for very short periods, frequently from day to day, and are secured by the deposit of high-class bills and securities of an easily realizable nature.

*Investments* represent the bank's holding of bonds and other short-dated British Government securities, stocks guaranteed by the British Government, British Corporation stocks, Colonial and Foreign Government stocks and bonds, and other investments. The bank's policy in regard to these assets is essentially conservative: the investments are selected most carefully and in all cases valued in the balance sheet below market price.

*Bills Discounted* include first-class bills bought in the money market or discounted by the bank for its customers. They carry responsible names and automatically become cash at short date, the maturities being so arranged that large amounts fall due for payment from day to day.

*Advances to Customers and other Accounts* comprise the loans and overdrafts to customers, secured by an infinite variety of assets. These accounts are continually under the keenest scrutiny, and ample provision is made out of profits for all bad and doubtful debts.

*Bank Premises.* This figure represents a conservative under-valuation of the premises owned by the bank, including its 2,090 branches.

*Shares in Affiliations* have been acquired in exchange for those of the Midland Bank or by purchase for cash. In no case does the valuation include any allowance for goodwill.

## RISE OF MODERN BANKING.

At the beginning of the nineteenth century the country was served by numerous small banks in addition to the Bank of England. These banks were distributed up and down the country, and many of them issued bank-notes. There was a great deal of instability about many of these banks and failures were frequent.

In succeeding years there were bank crises, and it became quite evident to the Government and Parliament that banking reform was a necessity for securing financial stability in the country. As the question came to the notice of public opinion, there sprang up two different schools of thought on the subject. It was seen that one of the root causes of banking failure was to be found in the issue of bank-notes which many banks were tempted to issue in excess of their gold backing, and it followed that the controversy turned on this question of note issue. It was argued on one side that if the issue of notes were left in the hands of the bankers themselves without any attempt at legislative restriction, the bankers would have to maintain a prudent policy or go to the wall, and would, therefore, work out their own salvation. This appeal for freedom was called the *Banking Theory*. The opposite argument called for State control, of the most minute kind, of the paper issue and has been called the *Currency Theory*. In the end the latter argument triumphed, and its ideas were incorporated in the Bank Charter Act, 1844. This Act was designed to improve the state of banking in the country and provided for the note issue to be ultimately confined to the Bank of England as it now is. A rather peculiar point to note is that although this Act was passed to prevent crises, it was often sought to suspend its action on account of emergency, and this was done several times.

One of the most important functions of the banking system then became the issue of notes, and this system of credit proved of great assistance to trade. With the evolution of the cheque, however, this particular type of bill superseded the bank-note and has now become of supreme importance in the banking system. The main principle of banking has thus, in the space of fifty years, changed from that of notes to that of deposits. The deposit system has developed quite untrammelled by any State intervention and can be expanded and contracted at the will of the banker. Bankers can increase the credit circulation by allowing customers of substance to overdraw. Thus, although technically the banks are controlled by the currency principle, they actually work under conditions very similar to the banking principle.

#### RECENT DEVELOPMENTS.

Another important change which has taken place during the

last fifty years is the amalgamation of banks. The large number of small banks which existed at the beginning of the nineteenth century have gradually been amalgamated until now the finances of the country are well nigh dominated by five large banks, viz.—

1. The Midland Bank.
2. Lloyds Bank.
3. The Westminster Bank.
4. The National Provincial Bank.
5. Barclays Bank.

Thus the whole financial system of the country, meaning, as it does, the very economic life of the community, rests upon the policies of a comparatively few persons. The danger of a money trust has been seen in time and further amalgamations cannot take place without the consent of the Treasury, and a certain amount of keen competition exists among these five banks. Of course certain advantages are gained through the unifying of the banking system in that every branch is keenly interested in the financial well-being of the rest. Again, the bigger the bank the smaller is the amount of reserve that each branch office needs to keep, for in time of need demands can be made on the head office.

The *Gold Standard Act* of 1925 aimed at restoring the gold standard in regard to external trade relations. The Bank of England was no longer bound to pay any bank note in legal coin although bank notes were to remain legal tender within the country. The right of private persons to bring gold to the Mint was discontinued, this privilege being reserved to the Bank of England. Thus, although there is no gold currency in circulation within the country, gold bullion can be obtained at the Bank in quantities of not less than 400 oz. troy. The existing currency is described as a Gold Bullion Standard, being based on the principle that, so long as adequate provision is made for its convertibility, it is immaterial of what substance the actual circulating medium is composed. In 1928 there was passed the *Currency and Bank Notes Act*, the object of which was to provide for the transfer to the Issue Department of the Bank of England of the huge outstanding balance of currency notes which had been issued as the result of the War. Henceforth, these notes were to be treated as bank notes and the fiduciary issue was increased to £260,000,000.

There are also minor developments of English banking which have to be mentioned, viz.—

1. The recent extension of business in foreign exchange.
2. The institution of the “ world letter of credit.”
3. The increase in trustee business undertaken by the banks.
4. Attempts made, especially by the Bank of England, to steady up debits and credits.

Thus the interest on war loans is paid out at varying times so that the balance at the Bank is not suddenly diminished excessively. Similarly taxes can be paid in instalments

### THE BANK OF ENGLAND.

The Bank of England, founded by William Paterson, was incorporated in 1694 as a joint-stock company with a capital of £1,200,000 which was lent to the Government of William and Mary at 8 per cent interest. Thus the Bank started as a servant of the Government, and its charter having been constantly renewed it continues to act in this capacity. It is the Government bank inasmuch as it keeps the accounts of the various departments and pays interest on the National Debt, besides acting as intermediary in the collection of bullion for the Mint

The Bank of England acts in some respects as treasurer to the Government, receiving taxes and making necessary payments. It carries a proportion of the National Debt, but against this it is allowed to issue its bank-notes. Although it is not a Government institution, its actions are in some respects controlled by the Government through the terms of the Bank Charter Act, 1844 ; thus it has the monopoly of note issue in England, though its issue is limited to the sum covered by the amount of Government debt it carries, a proportion of lapsed note issues of other banks and the amount of bullion held in the Issue Department.

The Bank acts as a banker to the other banks. Practically every bank in England holds its reserve at the Bank of England, partly as a measure of safety and partly to facilitate clearing operations ; the London Clearing House has an account with the Bank of England. Thus it will be seen that on it hinges the whole banking fabric of the country, which necessitates rather conservative operations on its part. Since it is the guardian of the gold reserve in England, it makes alterations in its discount rate from

time to time in order to attract or retain gold ; this policy affects the other banks since it is their custom to pay interest to depositors at a rate which depends on the bank rate. Though the prosperity and safety of the other banks depends so much on the policy of the Bank of England its directors are not drawn from the ranks of the bankers but from other financial classes.

As regards the general public, its present relation lies in the functions enumerated above. The fixing of the bank rate, however, has a great effect on industry and trade, making money cheap or dear as the case may be, though a still greater influence was noticeable in years gone by. The Bank also assists trade in some cases by discounting bills not readily discounted elsewhere.

#### TEST PAPER 12

1. Explain the relation of banking to other branches of the commercial system.

2. Describe the nature of the transactions that ordinarily take place between a trader and his bank.

3. Assuming that you are starting a business, explain how you would open a banking account and what advantages you would derive from it.

4. A trader received a letter from his bankers informing him that unless the credit balance of his current account averaged £100 they would charge him a commission. What is the meaning of this statement ?

5. Distinguish between a current and a deposit account. What steps must be taken by a trader to open a current account with a bank ?

6. Explain the purpose of a bank pass book. A pass book, headed " Barclays Bank, Ltd., in account with Wm. Jones & Co.," shows a credit balance of £200. In whose favour is this balance ?

7. What are the principal items in the balance sheet of a joint-stock bank ? How can you tell from such a balance sheet that the bank is sound ?

8. Construct a typical balance sheet of an English joint-stock bank, and explain the meaning of the items contained therein.

9. Many amalgamations have taken place in recent years between leading banks. Briefly explain the general effect these have had on the nature of the services rendered by bankers to the public.

10. " A bank is an institution which holds itself out to receive from the public deposits payable on demand by cheque." Discuss this definition, and state an alternative, giving your reasons as to which you prefer.

11. In what ways is a banker connected with the outside world ? Illustrate your answer by explaining the functions of (a) The Bank of England, (b) A Joint-stock Bank.

12. Mr. Smith, of Newcastle, buys goods from the Imperial Trading Company, London, and pays for them with a cheque. Trace the course of the cheque from the time when it is signed by Mr. Smith to the time when it is returned to him in his pass book.

## CHAPTER XIII

### FORMS OF LEGAL CONSTITUTION

AT the present time business concerns are owned by one or more persons, that is, they are conducted either as sole trading concerns or companies. In point of law, companies are divided into a number of different kinds, such as partnerships, limited partnerships, limited liability companies, and companies regulated by special Acts of Parliament. These various kinds of business undertakings are indicated on the inset facing this page, together with a summary of their main features. The great majority of business undertakings are in the hands of private individuals. The form of legal organization most favourable for a particular purpose varies according to circumstances. In general, the company form of undertaking is less suitable for trade since the activities of buying and selling call for the greatest possible mobility in the exploitation of favourable opportunities. In comparison with the sole trading concern, partnerships and joint-stock companies tend to be more ponderous on the principle of "many heads, many minds."

#### THE SOLE TRADER.

Where an undertaking is established by a sole trader he alone supplies the requisite capital, bears the risk, and is responsible for the management. The personal knowledge and capabilities of the owner of an undertaking is of considerable importance, for upon him devolves the necessity of making quick and sudden decisions. This explains why, in business, the sole trading concern predominates. Where he is alone, the entrepreneur is free in his decisions and more independent in his actions. A favourable opportunity of purchase or sale may easily slip by, if he has first to obtain the consent of one or more persons. Even where this consent is not legally necessary, and where the individual acts on his own discretion, he is, nevertheless, influenced in his actions by the fact that the others are co-responsible for the consequences of his actions and the fear that his procedure may cause ill-feeling.





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**ORIGIN OF PARTNERSHIP CONCERNS.**

There may yet be important reasons for the co-operation of several persons for the carrying on of an undertaking, that is, for the formation of partnerships or joint-stock companies. One of these reasons is the possibility of obtaining an adequate amount of capital. Another reason is the fact that the task may be beyond the energy or capacity of the individual. Of course the sole trader can employ assistants for this purpose, but he may desire to have the aid of a responsible collaborator who is interested in the undertaking and who will participate in its success or failure. The necessary extension of the work is gained by the introduction of the services of a second or third entrepreneur. An increase of capital is usually associated with this event, although it is not absolutely necessary. The particular reasons for this form of undertaking may be the growth in complexity of the business, which prevents the concentration of the management in the hands of a single person or in a single place. Moreover, it is possible that the individual trader may lack certain knowledge either of a technical or a commercial nature, and thus it is necessary to ally oneself with another person who can supply the need. Furthermore, it may be that the principal has reached old age or is infirm, and can no longer perform the duties or bear the responsibility alone. Finally, there may be reasons which are not directly connected with the work and which lead to the formation of a partnership, such as the desire to reward a faithful servant or to bind old employees permanently to the business.

**NATURE OF PARTNERSHIP.**

A partnership is a combination of two or more persons who carry on a business in common with a view to profit. The respective members of the partnership may bring in, in varying measure, capital, skill, or business connection. All the partners are deemed to be equal unless the agreement provides otherwise. The importance of each of these factors in the business will be embodied in the partnership agreement. The partnership is an elastic form of organization in that, to a very large extent, it may be varied at will by its members.

The Limited Partnership Act, 1907, makes it possible for a partner to leave his capital in the business after he has retired from

active participation therein. He, or his executors, in case of death, receives an agreed share of the profits, but his liability is limited as regards the firm's debts. Limited partners, however, have no control similar to that enjoyed by shareholders in companies over the conduct of the business.

On the whole, the partnership form of organization occupies a position midway between that of the sole trading concern and that of the joint-stock company, both in the scope of its business and the amount of its capital investment. It is generally local in character, and is found more frequently in smaller towns and in retail businesses. It is employed where the personal attention of the investor can be given to the management, and is based especially on individual confidence between the partners and on integrity. Where the investor is either not fully acquainted with his fellow partners, as in the case of a sleeping partner, or cannot give his personal attention to the business, it becomes for him a dangerous form of organization.

#### **ARTICLES OF PARTNERSHIP.**

In the ordinary partnership it is desirable that the terms arranged between the partners should be drawn up in the articles of partnership. These should include—

1. The name of the firm.
  2. The nature of the business.
  3. The term or duration of the partnership.
  4. The amount and proportion of capital.
  5. Interest on partners' capital.
  6. Method of dividing profits and losses.
  7. Method of dissolution in the event of the death of a partner
  8. Provision for the keeping of proper books of account and the preparation of final accounts.
  9. An arbitration clause—in case of disputes.
- A specimen partnership agreement is shown on the next page.

#### **PARTNERSHIP RELATIONS.**

The legal relationship between the partners and third parties is regulated by the Partnership Act, 1890. Every partner is entitled to represent the partnership in his dealings with outside parties unless the articles of partnership contain a clause to the contrary.

[AN EXAMPLE OF ARTICLES OF PARTNERSHIP.]

# This Deed

made the *tenth* day of *September* 19..

BETWEEN *John Jones* of *30 Quay Street, Cardiff, in the county of Glamorgan* of the one part and *Henry Brown* of *9 Central Place, Newport, in the county of Monmouth*, of the other part

WHEREAS the said *John Jones*, and *Henry Brown* have agreed to become partners in the trade or business of coal merchants as hereinafter mentioned for the term and subject to the conditions hereinafter contained

NOW THIS INDENTURE WITNESSETH that in pursuance of the said agreement each of the said parties doth hereby covenant with the other as follows—

- 1 THE said *John Jones* and *Henry Brown* shall become and remain partners in the trade or business of *Coal Merchants* for the term of *seven* years from the date hereof if both of them shall so long live.
- 2 THE business of the partnership shall be carried on under the style or firm of *Jones and Brown* at *30 Quay Street, Cardiff* aforesaid or at such other place or places as the partners shall from time to time determine.
- 3 THE capital of the partnership shall consist of the sum of £ 5,000 to be brought in by the partners in the following proportions namely the sum of £ 3,000 by the said *John Jones* and the sum of £2,000 by the said *Henry Brown* and the partners shall be entitled to the capital of the partnership in the same proportions and each partner shall be entitled to receive interest at the rate of £5 per cent per annum payable half-yearly from the commencement of the partnership on the amount of capital so brought in by him as aforesaid. Any money or its equivalent brought into the partnership by either partner in excess of the aforesaid amounts of £3,000 and £2,000 respectively shall be considered a loan by the partner bringing in such excess, and he shall be entitled to receive interest at the said rate of £5 per cent per annum payable half-yearly and to commence from the date of the advance on all such sums which he may so advance to the partnership. The said capital and loans and the profits arising therefrom shall be employed in the said business.
- 4 THE partners shall be entitled to the net profits of the said business (after paying all expenses and interest on capital in the following proportions the said *John Jones* to *three fifth* parts thereof and the said *Henry Brown* to the remaining *two fifth* parts thereof and the same shall be carried to their credit respectively in the books of the partnership immediately after every such annual account as aforesaid shall have been taken and signed and may be drawn out at pleasure.
- 5 THE said *John Jones* shall be at liberty to draw out of the profits of the business for his own use (in anticipation of his share in the net profits) any sum not exceeding the sum of £ 3 per *week* and the said *Henry Brown* shall be at liberty so to draw out of the said profits for his own use any sum not exceeding the sum of £ 2 per *week* but if at the end of any year of the partnership it shall appear upon taking the general account that the amount which either partner is entitled to receive for interest on capital brought in or advanced by him and his share for that year of the net profits of the business is less than the total amount which

he shall have drawn out in pursuance of this clause during that year he shall forthwith repay to the partnership the difference between the amount so drawn out by him and the amount which he is entitled to receive as aforesaid

6 IF either partner shall die during the partnership his executors or administrators shall be entitled to—

- (1) The amount of the sum brought in and any further advances made by him to the capital of the partnership
- (2) The amount of what shall be due to him for interest unpaid thereon up to the day of his death
- (3) The amount if any ascertained or to be ascertained by the annual account which was or should have been or should be taken on the annual account day next before his death or if he shall die on some annual account day on the day of his death to be due to him for his share in the net profits of the business and remaining at the time of his death unpaid to or not drawn upon by him
- (4) If he shall die on any other day than an annual account day an allowance in lieu of net profits equal to interest at the rate of £ 5 per cent per annum on the amount of his aforesaid share in the capital of the partnership to be calculated if he shall die before the first annual account day from the commencement of the partnership and if he shall die after that day then from the annual account day next before his death And the said executors or administrators shall give credit for all sums drawn out by him since the commencement of the partnership or the last annual account day as the case may be

7 THE partners shall keep or cause to be kept proper books of account and proper entries shall be made therein of all moneys received and paid and of all the sales purchases contracts engagements transactions and property of the partnership and of all other matters of which accounts or entries ought to be kept or made according to the usual and regular course of the business and the said books of account and all deeds securities bills and papers belonging to the partnership shall be kept at the counting house at 30 Quay Street, Cardiff or at such other place of business of the partnership as the partners shall agree upon and each partner shall have free access at all times to examine and to take copies of the same

8 WHENEVER any difference or dispute shall arise between the parties hereto or their respective executors or administrators touching these presents or anything herein contained or provided for or the operation hereof or any of their respective rights duties or liabilities hereunder or under the partnership hereby constituted or otherwise in connection with the premises the matter in difference or dispute shall be referred to two arbitrators or their umpire one of such arbitrators to be appointed by each party pursuant to and so as with regard to the mode and consequences of the reference and in all other respects to conform to the provisions in that behalf of the Arbitration Act 1889 or any subsisting statutory modification thereof

IN WITNESS whereof the said parties to these presents have hereunto set their hands and seals the day and year first above written

SIGNED Sealed and Delivered by the  
above-named in the presence of

Alfred Janner

294 Legal Square

Cardiff.

Solicitor

John Jones (L S)

Harry Brown (L S)

Creditors of the partnership have a claim not only on the assets of the firm but also on the private wealth of each member. The private creditors of a member have a claim only on the private estate of a partner, but in order to enforce payment they may compel him to withdraw from the partnership by enlisting the help of the court. The firm may, of course, continue without this partner.

### **DISSOLUTION OF PARTNERSHIP.**

The dissolution of an ordinary partnership may be carried out by—

1. The expiration of the time fixed in the articles of partnership ;
2. The mutual agreement of the partners ;
3. The death of one of the partners ;
4. The bankruptcy of one of the partners or of the firm as a whole ;
5. Giving notice of termination ;
6. The decision of the court.

### **JOINT ACCOUNT.**

The joint account should be considered here immediately after ordinary partnership because in many respects it coincides with it or at least is similar to it, as, for instance, in the method of management, in the reasons for dissolution, in the nature of the contract, and in the purpose for which it is formed.

A joint account is the combination of two or more persons for the purpose of carrying on a common adventure. Joint labour is more likely to achieve a successful result, and it may be that the risk is too great for one person. When the object of the venture has been attained, the partnership is dissolved. This form of partnership is therefore usually of short duration. In comparison with ordinary partnerships its chief features are—

1. The joint account has no firm name under which it carries on its business, and as a consequence it cannot acquire rights or incur liabilities under that name as in an ordinary partnership.
2. Common rights and obligations in relation to third persons occur only when the members act in common or are represented by an authorized person in their corporate capacity. Trade on joint account is found chiefly in two spheres, viz. in the banking

business for the common purchase and sale of securities, and in the overseas trade, in which case the partners are generally settled in different localities and share their work in such a way that one undertakes the manufacture or purchase whilst the other executes the sale of the goods. In such cases the partners are said to carry on business on joint account.

### **JOINT-STOCK COMPANIES.**

To overcome the drawbacks of partnership organization, the joint-stock company is, to an increasing extent, adopted as the constitution of a business house. The incorporated company has a definite legal existence of its own. It becomes a legal person quite apart from the individuals comprising it: hence it need never die, and the death of an individual member does not affect the continuity of the company.

### **METHODS OF INCORPORATION.**

A company can be incorporated in one of two ways—either by Royal Charter or in pursuance of an Act of Parliament. A company which is formed in the nature of a public company, such as a railway or canal, is generally formed by a special Act of Parliament. An ordinary trading company is incorporated by registration under and by virtue of the Companies Act, 1929, and in the great majority of cases the liability of the members of a company is limited to the nominal amount of their shares. Every such company must have as the last word of its name the word “limited,” and the name of the company with the word “limited” must be affixed to the outside of the place in which the business is carried on and must also appear on all documents issued or used by the company.

### **REGISTERED COMPANIES.**

A company under the Companies Act, 1929, is an association of a number of persons, the whole constituting one single person distinct from its members. Modern trade needed a large capital which in the case of ordinary partnership could be obtained only by the combination of such a large number of partners as to interfere with the efficiency of management. Partnership, as we have already seen, is a combination of several persons, each one being,

prima facie, the agent of the other and liable for all debts incurred in the business. Each partner has a right to take part in the management ; shares are not freely transferable, and the firm is not a separate legal person. The Companies Act, 1862, was intended to prevent the mischief arising from large trading undertakings being carried on by large fluctuating bodies. In the statutory company, shareholders are not one another's agents. They have no right to interfere in the business which is carried on by officers usually called *directors*. Shares are freely transferable, and in the case of limited companies the liability of each member is limited.

By the Companies Act, 1929, it is provided that the companies shall be registered, and that no company, association, or partnership of more than ten persons for banking and twenty persons for other purposes shall be formed for the purpose of carrying on any business which has for its object the acquisition of gain, unless registered as a company under the Act or in pursuance of some other Act, or by letters patent, or engaged in working mines in the stannaries. Any association within the section not registered as a company, if formed since the Act, is an illegal association.

#### **CHARACTERISTICS OF A COMPANY.**

A company registered under the Companies Act is a separate legal person distinct from its members and hence—

1. Contracts of the company do not give its members any direct rights against the company. The members may, as between themselves and the company, be liable to contribute to the assets of the company, and those assets will be liable to the creditors of the company.

2. As a rule the members cannot sue on contracts made by the company though, as a matter of procedure, they may sometimes sue in the name of the company if the directors, who ought to do so, refuse.

3. A member can be a creditor of the company and can sue it and get execution in competition with outside creditors.

4. Bankruptcy or death of a member does not affect the company.

5. A member is not an agent of the company and cannot bind it or the other members by his contracts or affect them by his acts.

6. The members cannot, although unanimous, enable the company to do anything which under its constitution is beyond the powers of the company. A company's powers are limited to the carrying out of the objects for which it was incorporated.

### **FORMATION OF A COMPANY.**

Any seven or more persons, or, in the case of a private company, any two or more persons associated for any lawful purpose may, by subscribing their names to a memorandum of association and otherwise complying with the requirements of the Act in respect of registration, form an incorporated company with or without limited liability.

The fact that the number of members becomes reduced below the minimum is a ground for winding up, and further, if at any time the company carries on business for more than six months while so reduced, every person who is a member while the business is so carried on after the sixth month and is cognizant of the fact, is severally liable for all the debts of the business.

### **MEMORANDUM OF ASSOCIATION.**

In the formation of a company limited by shares a document, called a memorandum of association, must be prepared and signed by seven persons in the case of a public company or by two in the case of a private company, each of whom must agree to take at least one share in the capital of the company. It must contain—

1. The name of the company.
2. A statement as to the part of the United Kingdom in which the registered office is to be.
3. The objects of the company.
4. A statement that the liability of members is limited.
5. The nominal capital of the company and the division thereof into shares of fixed amount.

Other things may be put into the memorandum, and if they are conditions subject to which the company is incorporated, they can be altered only in the manner prescribed by the Act for the alteration of the memorandum ; but if they are mere regulations or other unessential stipulations they can be altered in the same way as the articles.

**THE NAME OF THE COMPANY.**

Any name may be taken except that a company may not be registered with the name of an existing registered company or with a name so similar as to deceive. Apart from this a company can, under the general rule of law, be restrained from being registered or from carrying on business after registration under a name calculated to lead people to think that its goods are the goods of some person or company carrying on a similar business. The word "royal" must not be used as part of the name without the authority of the Home Office. By the Anzac Act, 1916, the word "Anzac" must not be used as a name in a trade, business, or profession. Finally, the last word of the name must be the word "limited."

If the Board of Trade is satisfied that an association about to be formed is for promoting commerce, art, science, religion, charity, or any other useful object, and intends to apply its profit to that object and to prohibit the payment of dividends to members, the Board may license the association to be registered with limited liability *without* the use of the word "limited" as part of its name. In this case the memorandum and articles must be approved by the Board of Trade and must contain a clause prohibiting the payment of dividends to members.

The name of a company must appear on the outside of every place where the company carries on business. It must be engraved on the company's seal. It must appear on all notices, bills, cheques, orders, and receipts. The Companies Act, 1929, provides penalties for failure in any of these particulars, and further, any official of the company issuing a bill, note, cheque, etc., without the name of the company on it is personally liable in respect of it unless the same is duly paid by the company.

**CHANGE OF NAME.**

The name of a company may always be changed by a special resolution of the members with the consent of the Board of Trade. A special resolution is one passed by a three-quarters majority at a meeting of the shareholders, and confirmed by a simple majority at a subsequent meeting. If the company is registered in the name of an existing company, or in a too similar name, it can alter it with the sanction of the Registrar.

**THE REGISTERED OFFICE.**

If the company's registered office is in England (including Wales), the company must be registered in London ; unless it is for mining in Devon or Cornwall, where it is registered at Truro. If it is in Scotland it must be registered at Edinburgh, and if in Northern Ireland at Belfast. Writs and notices must be served at the registered office. There are penalties for carrying on business without a registered office and address, and a change must be notified to the Registrar. The name must appear there and the *register of members* and of *mortgages* must be kept there.

**OBJECTS.**

A company, under the Companies Acts, can do only those things which are included among the objects specified in its memorandum and are reasonably incidental thereto or specifically authorized by statute. The objects must be legal, that is, they must not be against the law of the land, such as to establish lotteries in England or to infringe the Companies Acts or any other statute.

Under the following circumstances a company may alter its memorandum with respect to its objects by passing a special resolution which is subject to the confirmation of the Court, viz.—

1. To carry on the business more economically or efficiently.
2. To attain its main purpose by new or improved means.
3. To enlarge or change the local area of its operations.
4. To carry on some business which may conveniently or advantageously be combined with its own.
5. To abandon or restrict any of its objects.

The application to the Court is by petition, and the Court has a discretion and must be satisfied that sufficient notice has been given to all persons whose interests will be affected. If an alteration is desired which cannot be obtained in this way, the only way of obtaining it is by reconstruction, i.e. by winding up the company and transferring its assets to a new company with a memorandum in the desired form, the members of the old company becoming the members of the new.

**LIMITED LIABILITY.**

Although the members are not directly liable to the company's creditors, they may be liable to contribute to the company's assets,

which assets will be used for the payment of the company's debts ; the liability may be—

1. Unlimited, i.e. the members may be liable to the full extent of the company's debts, or

2. Limited by guarantee, i.e. the members may be liable only to the extent of some fixed sum guaranteed by them when the company was formed, or

3. Limited by shares, i.e. the members may be liable only to the extent of the sum for the time being unpaid on the particular shares held by them respectively or which have been held by them within a period of twelve months.

### THE CAPITAL OF A COMPANY.

This may mean—

1. The nominal capital, i.e. the amount up to which the company is authorized to issue shares.

2. Issued capital, i.e. the amount of the nominal capital actually issued to shareholders.

3. Paid up capital, i.e. the amount of the issued capital which has been paid for.

4. Unpaid capital, i.e. the amount remaining unpaid on the issued shares.

A company may get money by borrowing. This is usually done by the issue of debentures acknowledging the indebtedness of the company and generally securing payment by a charge on the company's assets in favour of the debenture holders. The amount of this indebtedness is sometimes wrongly called "debenture capital." It is not capital at all. The memorandum must state the amount of the nominal capital and its division into shares of a fixed amount. Shares can be issued up to the amount mentioned in the memorandum but no further, until the memorandum has been altered by increasing the capital.

Shares may be of different amounts and of different classes, and particularly one class of shares may be given a preference over another, e.g. *preference shares* may be issued carrying a fixed preferential dividend payable before anything else is paid out of a company's profits. The division of shares into different classes and a statement of the rights attached to each class need not be put into the memorandum, but if rights are unconditionally

attached by the memorandum to a class of shares, this becomes a condition of the memorandum not easily alterable.

### ARTICLES OF ASSOCIATION.

There may be in the case of a company limited by shares, and there must be in the case of a company limited by guarantee or unlimited, registered with the memorandum, articles of association, signed by the subscribers to the memorandum and prescribing regulations for the company. In the case of a company limited by shares, if no articles are registered, the regulations in *Table A* in the schedule to the Act will be the regulations of the company. If articles are registered, *Table A* will apply so far as they are not excluded or modified by the articles.

Subject to the provisions of the Act and the conditions of the memorandum, the members may by a special resolution make or alter any article, and the new articles will be as binding as if they were original articles. The alteration may be retrospective and the right of alteration cannot be taken away by contract, but the alteration must be for the good of the company as a whole and not for the purpose of defrauding or oppressing a minority.

### CERTIFICATE OF INCORPORATION.

On the registration of the memorandum, the Registrar has to certify that the company is incorporated, and from the date of incorporation mentioned in the certificate, the company is a body corporate. This certificate is conclusive evidence that all requirements have been fulfilled and the association is a company authorized to be registered and duly registered under the Act. This will be so even if, for example, the memorandum is signed only by six persons instead of seven.

### COMMENCEMENT OF BUSINESS.

Except in the case of a private company, a company may not commence business or borrow unless—

(a) Shares payable in cash have been allotted to an amount not less than the minimum subscription. That is, where a company offers shares to the public it must not make a first allotment unless the amount fixed by the memorandum or articles and mentioned in the prospectus as the *minimum subscription* on which the

directors will proceed to allotment has been subscribed, and the sum payable on application has been paid and received. If no minimum subscription is fixed, then the whole amount offered for subscription must have been subscribed and paid for.

(b) Directors have paid on their shares payable in cash the same amount as is payable on application and allotment on the other shares payable in cash.

(c) A statutory declaration has been filed showing that (a) and (b) have been complied with ; and

(d) A statement in lieu of prospectus has been filed in the case of companies not issuing a prospectus.

When these rules have been complied with, the Registrar certifies that the company is entitled to commence business, and this is conclusive. Contracts made by the company are only provisional until the company is entitled to commence business, when they become binding.

#### UNDERWRITING.

This is an agreement to take shares or debentures if not taken by the public within a certain time. The consideration is usually a commission which is paid whether the underwriter has to take up the shares or not. If he does take them up, he holds them like any other shareholder, subject to payment in full, but he has a right to the payment of his commission ; if the shares are otherwise subscribed, the subscribers take them subject to payment in full, and the underwriter is entitled to payment of his commission. If the underwriter takes the shares and then transfers them, the transferee takes them subject to payment, while the underwriter is entitled to his commission. If the company without power to do so agrees to pay commission, the agreement is not enforceable. By means of the underwriting commission shares can in effect be issued at a discount, but if this is clearly the object of the arrangement it would be void

#### MEETINGS.

The general meeting exercises the rights of the shareholders by majority resolutions. As a rule a simple majority of the votes, that is, more than half of the votes cast, is decisive. Usually a shareholder has as many votes as he has shares. If he is prevented

from attending the general meeting he can appoint a delegate by giving written power of attorney ; this is known as proxy. The general meeting is convened by the board of directors and the notices are issued at least a fortnight before the meeting, which is presided over by the chairman of the board. The *minutes* are recorded by the secretary. A distinction is drawn between an ordinary general meeting and an extraordinary general meeting. An ordinary general meeting must be convened at least once a year. At this meeting the chairman of the directors has to submit his report, and the meeting moves a resolution on the basis of the annual balance sheet and the proposal of the directors in regard to the dividend and other points on the agenda.

## METHODS OF

### Form

### Circumstances under which Applied

#### I. COMPULSORY LIQUIDATION BY THE COURT.

1. When a special resolution of the company requires it.
2. When the company fails to commence business within one year.
3. When the company suspends its business for a year.
4. When the company is unable to pay its debts.
5. When the membership of the company falls below its legal limit.
6. When the company fails to file the statutory report or hold the statutory meeting.
7. When the Court is of opinion that it is just and equitable.

#### II. VOLUNTARY LIQUIDATION

1. When the period fixed for its duration expires.
2. When the event which terminates the company's business occurs.
3. When, by reason of its liabilities, it cannot continue.
4. When the company for any reason requires a voluntary winding up.

#### III. LIQUIDATION UNDER SUPERVISION OF THE COURT.

On application, the Court can direct that the voluntary winding up proceed under its super-

An extraordinary general meeting is convened in certain important cases where the interest of the company demands it, and where the period for the ordinary general meeting cannot be awaited. Among the reasons for the calling of a extraordinary general meeting are, for instance, the appointment of a new director, the discovery of fraud on the part of the officials, an increase in the capital of the company by the issue of new shares, and the reduction of the capital with the object of placing the company on a sound footing.

In the distribution of the profits of a company the following points have to be observed, viz.—

1. The advisability of creating a reserve fund for the protection of the shareholders and the creditors against loss during slack

## LIQUIDATION

### Conditions Rendering it Desirable

### Effects

When the company becomes insolvent.

1. The winding up order operates as a notice of discharge to all servants of the company, because it affects the personality of the employer the business being carried on by the Court.
2. All dispositions of the property of the company made between the commencement of the winding up and the winding up order are avoided.
3. A stay is put on all actions and executions.
4. The official receiver becomes the official liquidator.

When it is desired to dissolve a company amicably.

1. The company ceases to carry on business except for winding up purposes.
2. It remains a corporate body.
3. On appointment of the liquidator the directors' powers cease.
4. Transfers are subject to liquidator's consent.
5. If the winding up lasts more than a year the liquidator calls meetings of the company at the end of each year.
6. The liquidator may settle the list of contributories, make calls, and carry on the business for winding up purposes.

When it is desirable to put a stay on all proceedings against the company, or to appoint a representative of the Court to act with the existing liquidator.

The liquidator appointed in the voluntary winding up may exercise all his powers without the sanction of the Court, but subject to such restrictions as the Court may direct.

times. This reserve is raised by appropriating a portion of the profits each year until the fund amounts to, say, 10 per cent of the capital. A large reserve fund tends to increase the safety of the business and in consequence the value of the shares.

2. The creation of special reserves, such as a pension fund for the employees.

3. The deduction from the remaining balance of net profits of a percentage for the payment of a bonus to the directors.

4. The declaration of an additional dividend to the shareholders where there is a surplus of profits remaining after the payment of the above-mentioned items.

### CAUSES OF LIQUIDATION.

A company once incorporated under the Companies Acts cannot be terminated except by removal from the register of companies on the ground of its being a defunct company, or through the machinery of winding up.

A company may be wound up in three ways, viz.—

1. Compulsorily, by order of the Court.
2. Voluntarily, without the interference of the Court.
3. Voluntarily, but subject to the supervision of the Court.

A comparison of these different forms of liquidation is given in the table on pages 142 and 143. In a compulsory winding up, when the assets have been distributed the liquidator passes his accounts and makes his report to the Board of Trade; he then obtains his release and the Court makes an order dissolving the company. In the case of a voluntary or supervised winding up, the liquidator must make a return of the final meeting of the members to the Registrar, and the company is dissolved automatically upon the expiration of three months after the date of such return.

### TEST PAPER 13

1. Enumerate the principal types into which business concerns may be classified.

2. What are the principal features of a sole trading concern? Under what conditions is this form of business organization the most suitable?

3. In what respects does the "Registration of Business Names Act, 1916," affect the sole trader?

4. What is a limited partner? Explain in what way his position differs from that of a general partner.

5. What is the extent of the liability of a partner for the debts of

the firm (a) in the case of an ordinary partnership, (b) in the case of a limited partnership ?

How does a limited partner differ from an ordinary partner with regard to his right to take part in the management of the business of the firm ?

6. What formalities are required in the registration of a limited partnership ?

7. What are the consequences of a public unincorporated company carrying on business with more than twenty members ?

8. Under what circumstances will the Board of Trade allow the incorporation of a company under the Companies Act, 1929, without the addition of the word " limited " to its name ?

9. Compare and contrast a partnership with a public limited company.

10. In what respect is a private company exempt from statutory provisions (a) as regards its accounts, (b) the commencement of business ?

11. What are the respective advantages and disadvantages to traders of carrying on business (a) in partnership, (b) as a private limited company, (c) as a public limited company ?

12. Explain the nature and functions of the memorandum of association of a company under the Companies Act, 1929. What matters must be specified therein ?

13. Can a company registered under the Companies Act, 1929, change its name ? If so, how is this accomplished and what is the effect of the alteration ?

14. What is meant by the " objects clause " in the memorandum of association ? Will the objects clause be strictly construed ?

15. Define Table A and state under what circumstances the articles of association may be altered.

16. State shortly the steps necessary for the formation of a limited company and for enabling it to commence business.

17. When is a company (a) bound, (b) forbidden, (c) excused to use the word " limited " as part of its name ?

18. Into what different classes is the share capital of a company usually divided ? Distinguish between " authorized," " issued," and " paid up " capital.

19. Explain the meaning and contrast the advantages of the various classes of shares issued by a public limited company.

## CHAPTER XIV

### ASSOCIATIONS OF TRADERS

A TRADER'S own power is not always equal to the competitive struggle, and, in spite of excellent personal qualities, he frequently meets with insuperable difficulties in the maintenance of his establishment. It is nearly always the better capitalized competitors, either at home or abroad, who minimize the results of his labour or even cause his ruin. The retail trade in particular is affected by the competition of the departmental stores, the multiple shops, and the co-operative societies, all of which exercise control over a large capital.

Where a number of traders suffer from keen competition or where they lack the necessary means for extending the market area, as for instance, through tariff legislation or commercial treaties, it is natural for them to seek a mutual understanding which, in due course, may easily lead to a trade combination. Frequently the individual traders have to relinquish a part of their independence to the association in return for which the latter undertakes the effective representation of their interests.

The voluntary organizations of employers may be divided into three main classes—

1. *Economic Associations*, which aim at a common economic activity and impose certain restrictions upon the independence of their members ;

2. *Protective Associations*, which serve to promote the general interests of the members of a particular trade whilst at the same time preserving their independence ;

3. *Chambers of Commerce*, which serve to promote and protect the interests of trade in general.

#### **ECONOMIC ASSOCIATIONS.**

These are sometimes described as rings, cartels, or syndicates, the aim of which is to obtain more favourable conditions for their members in the purchase and sale of goods. In the main a distinction may be drawn between two different forms of such associations, viz.—

1. **Buying Associations**, which aim at a reduction of the cost of production by the co-operative purchase of raw materials, machinery, and other goods. For the attainment of this end they avail themselves of a co-operative buying agency or else dictate to their members the maximum prices they are to pay. If the suppliers refuse to sell to the members at the fixed prices they are boycotted by the association ; that is to say, the members of the association are placed under a penalty if they buy from them. As a counter measure the suppliers frequently combine and adopt similar measures.

The members of the buying associations are purchasers, not only of raw materials and machinery, but also of labour power. To safeguard the interests of employers in their dealings with workers who possess their own powerful trade unions, employers' associations have arisen which unite the masters engaged in the same trade.

2. **Selling Associations**, which aim at the mitigation of competition, the prevention of over-production, and the cutting of prices. Such associations are generally described as rings or cartels. There are three principal kinds, viz.—

(a) Price cartels, which aim at fixing the minimum selling prices.

(b) Production cartels, the purpose of which is to avoid over-production. They dictate to their members the quantity of goods which they may bring on the market within a given period ; and

(c) Cartels for the protection of the selling area, by apportioning to their members the districts in which alone they may sell. Members who are unfaithful to their contract expose themselves to considerable penalties. Nevertheless, an evasion of the terms of the contract is not infrequent ; for instance, in price cartels, a member may insert the minimum or fixed price in his accounts but secretly allow a rebate or grant an extended period of credit.

A natural development of employers' associations in their aim at large-scale capitalistic organization is the so-called *fusion*. This represents a complete unification of several undertakings under one management, in which case some of the participating members lose their independence and may find employment only as sub-managers. Such fusion frequently occurs in the spheres of banking, manufacture, and in transport.

A special kind of combination which finds its home and highest development in America is the *Trust*. This arises when several limited companies hand over their assets to a common board of trustees. In return the trustees give to the former shareholders trust shares and bind themselves to carry out the management in a diligent manner. In the United States trusts have acquired such a power that it has physically been impossible to control their activities. On account of their dominant position in the economic life of America, they have undoubtedly acquired a certain stigma, and there is a growing demand for their regulation.

In some branches of business the experiment has been made, either by firms which originated as purely trading concerns, or by firms which originated as manufacturing or producing organizations, to combine the functions of production and marketing and to control at all stages from the raw material to the finished product the commodity of which they arrange the supply. What effect the example of organization of this type may ultimately exert on the general structure of British commerce cannot yet be definitely stated. It is, however, clear that, so far as the actual commodities in question are concerned, numbers of small independent trading firms dealing with special markets or special stages in the production of these commodities have in recent years been displaced or absorbed. This tendency is particularly noticeable in the coal export trade.

### PROTECTIVE ASSOCIATIONS.

These aim at the general progress of a particular trade by the improvement of its technique or by endeavouring to influence the commercial policy of the State. At the same time they allow each member to retain his legal and economic independence. Such associations strive to benefit trade in general, or a particular branch of it. In the latter case they are called trade associations.

With the increase of the power of trade unions, local organizations of employers began to be formed in various sections. In the course of time local organizations serving the interests of particular industries federated. Various organizations forming part of these wider organizations fared differently with regard to their influence upon the affairs of the central bodies. The individual associations either maintained a minimum of independence, leaving all initiative to the central body, or the alliance was a very loose one. We can

thus observe two classes of employers' organizations in the United Kingdom, viz.—

1. Federations with important and practically independent sub-organizations, such as the Association of Engineering and Ship-building Employers, the Federation of Master Printers and Allied Trades, the Incorporated Federated Association of Boot and Shoe Manufacturers, the Federation of Master Cotton Spinners, and the National Federation of Building Trade Employers ; and

2. Centralized organizations such as the Shipping Federation, the National Federation of Merchant Tailors, and the Mining Association of Great Britain.

Comparatively few of these associations are out-and-out associations of employers as opposed to activities of associated employees. Some organizations carry so-called black-lists forbidding members to employ striking employees of fellow members. One of the principal activities of these associations is in relation to the influencing of current legislation. Some associations have permanent Parliamentary committees to defend their interests in Parliament. They also maintain welfare institutions for their working men, such as libraries and courses of instruction, and information bureaux for members ; publish trade papers ; and fight for fair competition.

Associations of wholesalers and manufacturers devote themselves chiefly to the development of trading intercourse with foreign countries by active intervention in the conclusion of commercial treaties and in the determination of Customs duties and transport rates. There are also associations which confine their attention to the strengthening of the home trade.

Associations of retailers are very numerous and can be found in nearly every locality. They embrace either the whole of the retail trade or particular branches of it, and generally aim at the improvement of the status of their members, and the suppression of unfair competition and the mitigation of competition amongst themselves. The numerous individual associations have in some cases combined into districts and even national organizations, in order to secure a more effective representation of their interests.

#### **CHAMBERS OF COMMERCE.**

These are perfectly independent and voluntary organizations of business men and manufacturers, having no official connection

with Government authorities, receiving no subsidies of any kind, and meeting their expenses entirely through membership fees. Their chief aim is the promotion and protection of general trade interests, and thus they are distinct from organizations for the protection of the interests in special trades.

British chambers of commerce meet several times during the year for elections, consultation, and action on resolutions. Special trade sections of the chambers of commerce, however, meet from time to time for the discussion of their special interests. The trade sections elect a presiding officer who represents them in the Executive Committee of the Chamber of Commerce.

Every chamber of commerce is governed by a council or board, elected at the annual meeting. Generally the mayor of the municipality and the members of Parliament for the district are *ex-officio* members of the board.

In spite of their unofficial character, British chambers of commerce are frequently consulted by Government authorities in regard to the commercial interests of their locality. They send deputations to Parliament and submit suggestions and petitions to the Government. They have no functions of an official character but certificates of origin and identification cards for commercial travellers issued by them are recognized by foreign governments as a matter of courtesy.

These bodies furnish information to members and others on Customs tariffs, statistics, market prices, and addresses. They frequently organize courts of arbitration for commercial disputes and conciliation boards for the settlement of disputes between employers and employees. In some instances they have equipped and subsidized commercial schools.

In the United Kingdom there are about 125 chambers of commerce. In many instances they are small, weak, and inefficient. The suggestion has been made to abolish chambers of commerce in small towns that could not properly support such institutions, and to organize chambers of commerce covering somewhat larger districts. Such a combination of chambers of commerce for an entire district is found in the flourishing South of Scotland Chamber of Commerce. In the larger towns, however, chambers of commerce are very successful and active. Among these may be mentioned Birmingham, Liverpool, Leeds, Glasgow, Bristol, Cardiff,

and Nottingham. The councils of the chambers of commerce in these cities are composed of representative business men.

### **ASSOCIATION OF CHAMBERS OF COMMERCE.**

The Association of Chambers of Commerce of the United Kingdom was formed in 1860 and incorporated in 1875. It comprises chambers of commerce in the United Kingdom and British chambers abroad. The objects of the association are—

1. To discuss and consider questions at meetings of delegates from chambers of commerce concerning and affecting trade, commerce, manufactures, and the shipping interests ;

2. To collect and disseminate information from time to time affecting the common and separate interests of such chambers and the commercial, manufacturing, and maritime interests of the country ;

3. To communicate the opinions of the chambers of commerce separately or unitedly to the Government or to the various departments thereof by letter, memorial, deputation, or otherwise ;

4. To petition Parliament on any matter affecting trade, commerce, manufacture, or shipping ;

5. To prepare and promote in Parliament Bills in the interest of the trade, commerce, manufacture, and shipping of the country, and to oppose measures which, in the opinion of the association, are likely to be injurious to those interests ;

6. In general to do all such things as may be incidental or conducive to the attainment of the foregoing objects.

The association distributes to the affiliated chambers copies of all letters received from Government departments of questions asked in Parliament affecting commerce, of Bills introduced into the House of Commons, and in general information of all kinds affecting the commercial community.

In addition to the Association of Chambers of Commerce in the United Kingdom, there have been within recent years biennial meetings of the chambers of commerce of the entire British Empire for the discussion of matters affecting the interests of British trade as a whole.

### **THE BOARD OF TRADE.**

The Board of Trade, a department of the Government, the President of which is a member of the Cabinet, originated in a

series of committees on trade which were constituted at various times in the seventeenth century. In 1701 the committee was revised and made permanent ; it existed until 1782, when it was abolished and a Committee of the Privy Council on Trade and Foreign Plantations was established in its place. This committee is the present Board of Trade, the instrument under which it exists being an order in council of 1786.

The work connected with what were then called " Foreign Plantations " was transferred to the Colonial Office, and the duties of the Board of Trade which originally referred mainly to commercial treaties, tariffs, Customs duties, and prohibitions, have been continually extended by successive Acts of Parliament. These have laid upon the Board new administrative duties, including those relating to merchant shipping, harbours, and a large number of other matters, so that the Board has been a rapidly and continuously growing department.

In 1918 the Board of Trade was reorganized into two main divisions or departments, viz., the Department of Commerce and Industry, and the Department of Public Services Administration. The former is mainly concerned with the development of trade, with vigilance, with suggestion, with information, and with thinking out and assisting industrial policy. The latter is chiefly engaged in the exercise of statutory and other administrative functions of a permanent nature with regard to trade and transport.

**Department of Commerce and Industry.** Among the matters dealt with by this department are commercial questions in general ; commercial treaties ; foreign and colonial tariffs ; tariff returns for foreign countries and the colonies ; the annual statistical abstracts of trade for the United Kingdom, the Colonies, and for foreign countries ; the supervision of monthly trade accounts and annual statement of trade ; the publication of the *Board of Trade Journal*, and the editing of consular reports. In connection with the department is the Patent Office, which deals with patents, designs, and trade-marks.

In connection with the Development and Intelligence Branch, there is provided—

(a) A Reading Room, where the latest official publications may be consulted, as well as the most recent commercial directories, year books, etc., and a large number of trade journals ;

(b) A Sample Room, for the exhibition of specimens of manufactured goods competing with British products in foreign countries or British possessions, and of new raw materials likely to be of interest to the British manufacturers ; and

(c) An Inquiry Room, where personal inquiries may be made on the various subjects dealt with by the branch.

The information collected by the branch is obtained from reports furnished directly or through the Foreign Office ; by embassies, legations, commercial attachés, and consular officers in foreign countries ; and directly by trade commissioners and trade correspondents in the self-governing dominions, and the honorary correspondents of the branch in the Crown Colonies and Protectorates ; from the official publications of the British, colonial, and foreign governments ; and also from numerous trade publications and other sources.

The information so received and placed at the service of British manufacturers and merchants relates principally to the following subjects : Names of firms abroad engaged in particular lines of business in different localities ; foreign and colonial contracts open to tender and other openings for British trade ; foreign and colonial tariffs and Customs regulations ; commercial statistics ; regulations concerning commercial travellers and their samples ; laws affecting patents, designs, and trade-marks in foreign countries ; certificates of origin ; trade conditions in various countries. The branch is ready to answer, so far as possible, questions on any commercial subject which may be addressed to it.

**Exhibitions.** These are in charge of a director who acts as secretary for Royal Commissions specially named for each exhibition. It is his duty, during the early stages of the preparation for individual exhibitions, to visit the ground and superintend the details of organization ; and later, when the exhibition is opened, to control the staff and to give the exhibitors any assistance they may require as well as the benefit of his experience and advice.

During the intervals between exhibitions it is incumbent upon him to prepare and make available for ready reference the records of past exhibitions ; to conduct a proper system of correspondence and management ; to keep himself informed, partly from a study of the reports of British representatives abroad and partly from

inquiries of his own, as to the nature and probable importance of proposed exhibitions; to keep in touch with the principal manufacturers and traders in each industry; and also with the chambers of commerce and other trade associations in the United Kingdom.

**Department of Public Services Administration.** The chief work of this branch of the Board of Trade is the administration of a number of important statutes relating to the Mercantile Marine, companies, bankruptcy, etc.

### TEST PAPER 14

1. Enumerate some of the chief causes which are conducive to the formation of associations of traders.

2. Give an example of a combination (*a*) of consumers, (*b*) of controllers of capital. Give a detailed description of each with examples.

3. Consider the relative place and function, in modern economic activity, of associations of business men (*a*) according to the locality, (*b*) according to trade.

4. Into what three classes may voluntary organizations of employers be divided?

5. Write notes on the following types of economic associations—

- (*a*) Buying associations;
- (*b*) Selling associations; and
- (*c*) Trusts.

6. In what ways may masters combine for common purposes?

7. What are the advantages and disadvantages of "price maintenance" agreements from the point of view of (*a*) the retailer, (*b*) the consumer?

8. What advantages are claimed to result from the formation of trusts? In what ways is a trust distinguished from a kartel?

9. Write short notes on the following: kartel, horizontal combination, pool, corner, buyers' association.

10. Give some account of the objects of trusts or combines, and show how they strive to achieve them.

11. Distinguish between "vertical" and "horizontal" combinations.

12. Explain the function and describe the constitution and objects of a chamber of commerce.

13. Describe some of the ways in which the Board of Trade helps to increase the prosperity of British commerce.

14. Into what main departments may the Board of Trade be divided?

15. What services are rendered to business by trade exhibitions? Illustrate your answer by references to some industry or trade with which you are familiar.

# APPENDIX A

## QUESTIONS FROM PUBLIC EXAMINATION PAPERS

R.S.A. = Royal Society of Arts.

L. & C. = Union of Lancashire and Cheshire Institutes.

N.U.T. = National Union of Teachers.

L.C.C. = London Chamber of Commerce.

N.C.C. = Northern Counties Examination Council.

1. You are considering setting up as a sole trader in a retail shop. Select a particular branch of trade and write a short summary of the preliminary problems that will confront you. (R.S.A.).

2. What is capital? Distinguish between the amount of capital owned by a firm and the amount employed by the firm. (R.S.A.)

3. What do you understand by the fixed and by the circulating capital of a business? How far can this distinction be made in the case of retail trade? (R.S.A.)

4. (a) What are the functions of the entrepreneur?

(b) Would you include the entrepreneur under the heading of "Capital" or "Labour," or as a separate class? Give reasons for your answer. (R.S.A.)

5. What exactly do you mean by a trader's capital? Is it possible for a trader to have a capital of £1,000 if he possesses only £2 in cash? Illustrate your answer by means of an example. (N.C.C.)

6. What do you understand by division of labour? How does it benefit the employer, the workman, and the consumer? (N.C.C.)

7. What is an "office"? Briefly describe the various kinds of appliances which you would recommend for use in a modern merchant's office. (N.U.T.)

8. Sketch in broad outline the way in which you would organize the filing arrangements for both inward and outward correspondence in a large merchant's office. (R.S.A.)

9. What modern office appliances would you recommend for installation by a manufacturing firm having, say, a thousand employees, and a very large correspondence, and whose costing and book-keeping systems involved much tabular analysis? Briefly describe the appliances you recommend. (R.S.A.)

10. Mention briefly the various ways of duplicating outward

correspondence for office reference purposes, and state which you recommend and why. (R.S.A.)

11. You are taken into a merchant's counting house and handed the morning's remittances, consisting of cheques, bank-notes, currency notes, and postal orders, and told to pay them into the merchant's bankers. How would you set to work and what points would you be particularly careful to observe? (R.S.A.)

12. What are the general principles of staff organization? (R.S.A.)

13. Classify and explain the functions performed by the merchant in the home trade. (L. & C.)

14. "The policy of 'small profits quick returns' is the only one applicable to contemporary conditions in English retail trade." Explain clearly what this statement means and give your opinion concerning its correctness or otherwise. (R.S.A.)

15. On 1st Jan. last year, a trader had premises valued at £4,500 and stock in hand which cost him £2,500. He owed £625. He turned over his stock four times during the year and made 16 per cent on his sales each time. What percentage did his profit bear to his capital? (R.S.A.)

16. Some businesses, in order to seek and keep customers, prepare samples or patterns of the goods they offer for sale. How would you organize a department to deal with this work? (L.C.C.)

17. If you had a "mail order" business, how would you record and test the result of any advertising you might engage in. (L.C.C.)

18. What factors help to promote (a) good buying; (b) good salesmanship? Show how these are bound up with the prosperity of a trader's business. (N.C.C.)

19. Explain why a retailer upon receipt of a quotation should carefully examine the price in relation to quantity and expenses of transport. What different terms may be given referring to transport? (N.C.C.)

20. From what sources does a trader draw his supplies of goods? What methods does he employ to secure and maintain a market for the sale of his goods? (L. & C.)

21. Describe the organization of a business in some industry with which you are familiar, pointing out the duties of the various grades of employees and their relationships to one another, and indicate the methods and machinery of purchase and sale of goods. (L. & C.)

22. When fixing selling prices the retailer adds a larger percentage to cost than the wholesale merchant does. Explain carefully why this is the general practice. How does this difference affect the return upon the capital employed? (L. & C.)

23. What are the functions of the trader? What general principles should guide him in his efforts to increase his turnover? (N.C.C.)

24. A retail trader gives you the following information concerning his three principal departments—

| Average stock at cost price | Annual turnover | Percentage mark-up on cost price (to determine retail selling price) |
|-----------------------------|-----------------|----------------------------------------------------------------------|
| Department A = £500         | 8               | 33                                                                   |
| „ B = £1,500                | 4½              | 50                                                                   |
| „ C = £480                  | 2½              | 60                                                                   |

Find (a) his gross profit for the year; (b) his average annual turnover. (R.S.A.)

25. The annual figures of sales of motor-cars of a certain firm are given in the following table—

| Number of cars sold | 1921  | 1922  | 1923   | 1924   | 1925   |
|---------------------|-------|-------|--------|--------|--------|
|                     | 2,927 | 5,166 | 17,286 | 27,551 | 48,712 |

Construct another table showing the percentage increase in output for each year in comparison with the preceding year. Which is the more informing table? (R.S.A.)

26. How are the profits of a firm related to its turnover? The turnover in a retail grocery business last year was £1,500 and the value of the average stock was £250. How long did it take to turn over the average stock? (N.C.C.)

27. A trader purchased some goods for £1,000, he sold them for £1,500. His total expenses in selling them were £250. Find (a) the gross profit; (b) the total net profit; (c) percentage of net profit on cost price; (d) the percentage of net profit on selling price; and (e) the percentage of working expenses to sales. (L. & C.)

28. A trader gives you the following information concerning his perfumery and fancies department: Average stock carried at cost price, £50; stock is turned over five times per year; 40 per cent is added to cost price, and (to determine the selling price) this new figure is further increased by 28 per cent; total estimated sales

for year, £280. If the business expenses in this department amount to 16 per cent of the selling price of the goods sold, find (a) the gross profit usually earned by this department during a year; (b) the net profit for the period. (R.S.A.)

29.

|                       | Sales     | Selling Expenses | Per cent |
|-----------------------|-----------|------------------|----------|
| January . . . .       | £ 56,248  | £ 6,432          | 11.4     |
| February . . . .      | 38,962    | ?                | 15.1     |
| March . . . .         | 74,839    | 6,824            | ?        |
| First Quarter . . . . | £ 170,049 | ?                | ?        |

Fill in the missing figures in the above statement and find the average monthly percentage during the quarter. (R.S.A.)

30. Describe the characteristics of a good: (a) common medium of exchange, and (b) standard for deferred payments. To what extent are they possessed by the things that discharge these functions in England at the present time? (N.U.T.)

31. "Money's a matter of functions four." Explain the nature of these four functions, and state the qualities which you consider to be the most important in any commodity which it is proposed to use as the money of a civilized community. (N.U.T.)

32. Write a short note on any four of the following: (a) token money; (b) Mint price of gold; (c) legal tender; (d) the pound sterling; (e) fiduciary issue. (N.U.T.)

33. What is the Mint price for gold and what is the Bank of England price? Upon what is the first-named price founded, and what is the cause of the difference between that and the market price for gold? (N.U.T.)

34. Define the following: (a) currency; (b) distributive trade; (c) rest; (d) statute barred. (R.S.A.)

35. Define, accurately and succinctly, a "negotiable instrument." Discuss the effect upon the negotiability of a cheque if the drawer (a) crosses the cheque; (b) adds to the crossing the words "not negotiable"; (c) adds to the crossing, instead of the words "not negotiable," the words "account payee only." To whom are the words "account payee only" addressed, and what have you to say for or against this addition to a crossing? (R.S.A.)

36. Is it true to say that a cheque crossed and marked "not negotiable" cannot be transferred by the payee to another person? If such a cheque can be transferred by the payee to another person,

what precisely is the effect of marking a cheque "not negotiable"?  
(R.S.A.)

37. White draws a bill of exchange on Black in favour of Green. Green sends the bill to Black, obtains his acceptance, and then negotiates the bill to Brown. In what capacity, respectively, do White, Black, Green, and Brown stand as regards the bill?  
(R.S.A.)

38. The following is an exact transcript of a document—  
CARDIFF.

Messrs. Fowler & Son,  
Auctioneers,  
Swansea.  
Dear Sirs,

Three months after date herewith please pay the sum of £100 to my Solicitors, Messrs. Barnett & Janner, of this town. If in the meantime you sell my Swansea property you may, if you wish, deduct this sum from the proceeds.

Yours truly,  
JOHN WILLIAMS.

We agree.  
Wm. Fowler & Son,

Is this document a bill of exchange? Discuss it in the light of the statutory definition.  
(N.U.T.)

39. In what way does a general acceptance differ from a qualified acceptance? Write short notes on the various kinds of qualified acceptances.  
(N.U.T.)

40. What is the difference between a bill of exchange and a bill of lading? A draws on B for the sum of £100 payable to C or order at the Midland Bank, Leeds, at three months from 20th March. The bill is duly accepted and honoured. (a) Show the usual form the bill would take. (b) What would you expect to find on the bill which would entitle the drawee to be termed the acceptor?  
(N.U.T.)

41. What is the difference between a bill of exchange and a promissory note? What special advantages are attached to the former?  
(R.S.A.)

42. Explain how a "bearer cheque" differs from an "order cheque," and an "open" from a "crossed cheque." Normally, how many different parties are there to a cheque? Show by an example that a cheque may be drawn and one of the parties stand in a dual capacity as regards the cheque.  
(N.U.T.)

43. Detail the services which banks are ready to perform for customers.  
(R.S.A.)

44. How do the banks create credit? What are the results of expansion and contraction of credit by the banks?  
(L. & C.)

45. What are the principal items in the balance sheet of a joint-stock bank? How can you tell from such a balance sheet that the bank is sound? (R.S.A.)

46. A banker is a lender of capital. Explain how he fulfils this function, and the nature of the capital he lends. (R.S.A.)

47. What formalities have to be gone through before a bank grants a loan to a limited company? (R.S.A.)

48. The Bank Rate has been described as the "barometer which foretells the commercial weather." Explain this statement. Who fixes the Bank Rate and according to what considerations is it fixed? (L. & C.)

49. State whether the following are likely to be acceptable to a banker as security for an overdraft of £1,000—

(a) £1,500 consols; current quotation, 55.

(b) £1,000 War Loan, 5 per cent; current quotation, 100½.

(c) £2,500 consols; (current quotation, 55) in joint name of yourself and John Jones.

(d) Deeds of freehold house valued at £2,000.

(e) Deeds of leasehold house (ten more years to run) costing £2,000 to build ten years ago.

(f) 5,000 National War Savings Certificates, costing 15s. 6d. each four years ago. (R.S.A.)

50. Explain in each case the probable effect upon the weekly return of the Bank of England of the following operations: (a) a reduction in the Bank Rate; (b) an advance of £10,000 by the Bank to the Government for purchasing purposes; (c) the payment of interest on consols or the War Loan. (L. & C.)

51. What part does banking play in commerce? (R.S.A.)

52. Give a concise description of the services rendered by the Post Office to the general public. (N.U.T.)

53. Explain: (a) railway letters; (b) express delivery of letters and parcels; (c) postal orders; (d) money orders. (L. & C.)

54. What is the meaning of *poste restante*, and for what purpose is it provided? (R.S.A.)

55. State precisely the differences between a postal order and a money order. (R.S.A.)

56. What kinds of banking operations are *not* undertaken by the Post Office? (R.S.A.)

57. In what way does the Post Office help people: (a) to save money; (b) to transmit money? (N.U.T.)

58. Mrs. John Smith, 25 King's Road, Southsea, wishes to

purchase a piano from a firm in London, but is unable to go there. Show how the newspaper, the Post Office, and the railway help her to obtain the piano. (N.U.T.)

59. Discuss the arrangements a retail trader should make for efficient delivery in his locality of goods ordered from him by post. (R.S.A.)

60. Illustrate, by considering the advantages, and disadvantages, of the State management of the Post Office, the factors that determine the success of the conduct of business by the State. (N.U.T.)

61. Describe briefly the facilities offered by the Post Office for the discharge of indebtedness between persons in one business centre and in another in this country. Have they any advantages over and above those afforded by the banks? (R.S.A.)

62. A customer who owes £19 17s. 4d. for goods supplied has written disputing the amount, and enclosing a cheque for £18 in settlement of all claims. Write a suitable letter in reply, intimating that this cheque cannot be accepted in settlement, but has been placed to the credit of the customer's account. (R.S.A.)

63. What advantages and disadvantages has a sole trader as compared with a partnership? (R.S.A.)

64. Jones, Brown and Robinson are each willing to subscribe £1,000 to work a new business. Would you recommend them to form a partnership, or a limited company, or a limited partnership? Give reasons for your answer. (N.U.T.)

65. What in general are the requisite conditions of a successful partnership? (R.S.A.)

66. In the absence of express agreement to the contrary, how are the profits of a partnership divided, and how may the partnership be terminated? What limit is there to the rights of a partner to pledge the credit of a firm? (R.S.A.)

67. Explain carefully what is meant by a limited liability company, and account for the widespread adoption of this form of business organization. (L. & C.)

68. What features distinguish a public company registered under the Companies Act, 1929, from: (a) a private company registered under the same Act, and (b) a firm of three or more partners? (R.S.A.)

69. What is a limited partnership? How may the rights of a limited partner be lost? (R.S.A.)

70. What are the differences between the memorandum of association and the articles of association of a company? (R.S.A.)

71. By whom is the business of a limited company actually conducted ? (R.S.A.)

72. How does the organization of a business owned by a limited company differ from that of a business owned by an individual ? (R.S.A.)

73. What kinds of share and loan capital do companies employ ? Mention the order in which these types of capital are repaid if the company is wound up. On what grounds can this order of repayment be justified ? (L. & C.)

74. What are the respective advantages and disadvantages of carrying on a business : (a) in partnership ; (b) as a private limited company ; (c) as a co-operative society ? (N.U.T.)

75. Distinguish between the conditions under which capital is held by a business owned by : (a) a sole trader ; (b) an ordinary partnership. (R.S.A.)

76. A company has an *authorized* capital of £100,000 divided into 20,000 shares of £5 each. It has *issued* 16,000 shares upon which £4 per share has been *called up*, and there is a sum of £1,000 *calls in arrear*. Explain the words in italics, and show how the share capital would appear in the balance sheet of the company. (N.U.T.)

77. Distinguish between a partnership, a syndicate, and a combine. (R.S.A.)

78. What do you understand by a commercial and industrial combination ? What are their objects and how do they seek to obtain them ? (L. & C.)

79. Consider the relative functions and significance of associations of business men : (a) according to locality ; (b) according to trade. (N.U.T.)

80. Write a letter from A B C, Ltd., to D E F, Ltd. (a competing company) setting out proposals for eliminating expensive competition by mutual exchange of shares and allocation of selling territory. (R.S.A.)

81. Give two examples of a trust, or combine, and state the purposes that each of your examples is intended to serve. (R.S.A.)

82. Describe how a holding company may be made to effect a combination of interests in business. What are its advantages over other forms of combinations ? (R.S.A.)

# APPENDIX B

## TERMS USED IN BUSINESS ECONOMICS

**Acceptance.** When a draft or bill has been presented to the drawee, and signed or accepted by him, it is called an acceptance. The bill is said to be presented for acceptance.

**Acceptor.** The person who accepts the bill and thus makes himself liable thereon.

**Account Current.** An account of transactions which have taken place between two parties during a given period. It is a copy of the ledger account of either party, with additional columns for interest which is calculated at a fixed rate per cent for each item from the date of the transaction to the close of the account.

**Account Sales.** A statement showing the proceeds of a consignment, with the amount deducted for expenses and agent's commission.

**Ad Valorem.** According to value. This term is applied to duties which are levied by the Customs Authorities and others on goods in proportion to their value.

**Adventure.** A commercial operation or speculation entered into by a trader for his own account, or on joint account with another, consisting usually of the import or export of goods.

**Allotment.** The distribution of the shares of a company by the directors in response to the application made for them, or in pursuance of contracts agreeing to take them.

**Arbitrage.** Those operations of buying and selling by which advantage is taken of any temporary difference between the exchange at one place and its counterpart at another.

**Arbitration.** An amicable adjustment of a dispute by the decision of one or more private individuals, nominated by authority or by the parties concerned. Their judgment is termed *An Award*.

**Articles of Association.** A set of by-laws drawn up to govern the internal working of a joint-stock company. They regulate the issue of capital, the transfer and forfeiture of shares, the holding of meetings, prescribe for the keeping of the accounts, and the audit of the same define the powers and duties of directors, the rights of shareholders and other internal matters.

**Articles of Partnership.** A document setting out the terms and conditions under which two or more persons unite for the purpose of trade.

**Assets.** Debts owing to, and property belonging to, a person or firm.

**Assured.** The party in whose name an insurance policy is effected.

**Assignment.** A transfer of title or of interest in any property. The name is applied both to the action and to the document making such transfer.

**Auctioneer.** A person duly authorized to sell goods or real estate by public auction. He is primarily the agent for the seller, and differs from a broker or a factor in that he can only sell, while the former can buy as well as sell.

**Authorized Clerk.** A clerk authorized by his firm and sanctioned by the committee of the Stock Exchange to appear on 'change, and to transact on the floor of the House all classes of business on behalf of his principals, who may be either stock jobbers or stock brokers, who are members of the Stock Exchange.

**Average.** A term used to express the contribution made by all the owners of a ship and cargo towards defraying the cost of any loss or damage incurred in saving the ship or cargo from total loss. When the goods of a particular merchant are thrown overboard during a storm to save the ship from sinking, or when any part of the equipment of the ship is cast away for

the same purpose, each owner of the ship and cargo has to pay his proportion or average of such expense so that the whole loss does not fall on one individual.

**Average Adjuster.** A person skilled in real insurance affairs. When the insured claim indemnity for loss, the average adjuster is employed to prepare statements of the averages previous to their being adjusted by the underwriters. Such statements are often of a most elaborate and intricate character and require great skill and experience in drawing them up.

**Backwardation.** A consideration paid by sellers on the Stock Exchange for the privilege of postponing the actual delivery of stock. Thus, a backwarding of a quarter would mean five shillings per £100 stock paid by the seller to the buyer for not delivering the stock to the latter until the next account.

**Bank Charter.** This is the charter of incorporation of the Bank of England. It was first issued in 1694, but was renewed in modified form at various intervals. It confers privileges on the Bank of England which are not enjoyed by other Banks.

**Bank Rate.** The rate per cent charged by the Bank of England for discounting Bills. The rate is fixed weekly by the directors according to the condition of the Money Market.

**Bankruptcy.** The legal state of those who are adjudged unable to pay their debts. Their affairs are brought into a Law Court, called the Court of Bankruptcy, and are examined by a Commissioner or Judge. The property or estate of the bankrupt is then appropriated towards the payment of his debts. If the creditors consent, recourse may be had to a less rigorous procedure, namely, liquidation by arrangement, i.e. payment of the creditors by a composition of so much in the pound on their debt.

**Bear.** A speculator on the Stock Exchange who sells for future delivery stocks or shares which he does not at present possess, hoping to buy them in the meantime at a lower rate.

**Berth.** The place alongside a wharf or quay where a vessel is loading or discharging cargo.

**Bill of Lading.** A written statement signed by the Master or Agents of a vessel acknowledging the receipt of goods on board, and agreeing, under certain conditions, to deliver them safely to the consignee. It must be stamped with an impressed 6d. stamp before execution.

**Bill of Sale.** A security given for a debt. It confers upon the holder the power to seize and to sell the property of the debtor which is mentioned in the bill.

**Bill of Sight.** A provisional form of Customs declaration made by an importer. It is made out when the exact nature or quantity of goods to be landed is unknown. The importer is thus enabled to make, subsequently, a correct bill of entry.

**Black List.** A list of persons against whom it is necessary to warn the public, because their credit is so bad that it is unwise to enter into contracts with them. Such lists are published by the various trade protection agencies to their subscribers for their private information, in order to protect them from the risk of bad debts.

**Bonded Warehouse.** A secure place sanctioned by the Board of Customs for the deposit of dutiable goods without payment of duty until they are removed.

**Bourse.** The name given to a continental Stock Exchange or Money Market.

**Bullion.** Gold or silver in bars or in the mass, as distinct from the coined metal.

**Business Economics.** The study of the structure and internal organization of the economic units which constitute the social system. It embraces the science and art of conducting the various types of business undertakings.

**Calls.** The amounts which the members of a company are called upon to pay on shares not fully paid.

**Cambist.** A term applied to one who exchanges foreign money or deals in foreign notes or bills of exchange.

**Capital.** The amount invested in a business. The excess of assets over liabilities.

**Charter Party.** A contract entered into between the owner and the hirer of a vessel, for a certain period or voyage, at an agreed rate. The contract requires a sixpenny stamp.

**Cheap Money.** Cheap money conditions prevail when loans are easily obtained and the interest is correspondingly low.

**Cheque Rate.** The price at which a cheque or sight draft upon another country may be purchased.

**Commerce.** The sum total of those activities which have for their object the exchange of goods between the producer and the consumer. It embraces the marketing of all commodities whether produce, raw materials, or manufactured articles; together with the essential services, financial and otherwise, by which such marketing is facilitated. Trade—buying and selling, banking and finance, transport and insurance, and warehousing—all come within its scope.

**Composition.** A payment of something less than the full amount owing, made by a person who is insolvent or bankrupt, to settle the claim; the payment is usually at so much in the £.

**Contango.** The sum paid by a buyer who does not wish to pay for his stock on settlement day. It is a fee paid for carrying stock over for settlement to the next account. The Stock Exchange settlement occurs at the middle and end of each month. The amount of contango generally ranges between one shilling and seven shillings and sixpence per £100 stock.

**Cover.** In its wider sense this word means a security against loss, but it is employed more particularly in connection with Stock Exchange transactions to signify a deposit made with a broker to secure him from being out of pocket in the event of stocks falling against his client, the client paying the difference.

**Cum Dividend.** With a dividend due or accruing. When stocks or shares are sold *cum div.* the buyer takes the benefit of the dividend about to be distributed; but when they are quoted *ex div.* the seller wishes to dispose of the securities but to retain the dividend already declared upon them.

**Dead Freight.** A compensation payable to the shipowner when the charterer has failed to ship a full cargo.

**Debenture.** A certificate of indebtedness given by a company. Debentures have a first charge after mortgages for both the principal and the interest due on them on the whole of the assets of the undertaking. Accordingly they rank before Preference and Ordinary capital.

**Deficiency Bills.** When the revenue balance in the Bank of England to the credit of the Government is insufficient to pay the quarterly dividend, the deficiency is borrowed from the Bank upon "deficiency bill."

**Demurrage.** A charge of so much per day made by the owners of ships and barges for their detention beyond a stipulated time. The term is also used for a charge of so much per day made by railway companies for detaining their trucks beyond a certain time.

**Depreciation.** Loss in value due to external causes.

**Dishonour.** The non-acceptance or non-payment of a bill of exchange or the non-payment of a cheque.

**Documentary Bill.** A bill having attached to it certain documents as security, usually bill of lading, insurance policy, invoice and letter of hypothecation.

**Dock Dues.** Tolls charged on vessels and their cargoes when entering or leaving docks. These dues are charged to cover the interest on the capital and the cost of keeping the docks in order.

**Dock Warrants.** Certificates of goods in a warehouse of the docks, the possession of which entitles the holders to the delivery of the goods.

**Dunnage.** Articles used in stowing a ship's cargo to protect it from damage.

**Embargo.** A Government order to prevent ships from loading or unloading certain goods, or from entering or leaving a port, sometimes enforced in time of war.

**Endorsee.** The person to whom a bill, cheque or other document is transferred by endorsement. He can then deal with the document as if it had been actually made out to him in the first instance.

**Entrepôt.** An intermediate foreign port or warehouse for the temporary reception of goods which are in transit to another place.

**Exchequer Bills.** Orders upon the exchequer entitling the bearer to the sum specified thereon, together with the interest at a fixed rate per cent per day until a period is named for their payment. That period is at the option of the Government, but it seldom exceeds twelve months from the date of issue.

**Excise.** A tax on certain commodities produced and consumed within the country.

**Extractive Industry.** That branch of industry concerned with the production of wealth from the earth's surface, e.g. hunting and fishing, agriculture and mining.

**Factor.** An agent employed by a merchant to transact business on his account. He differs from a broker in that he may sell in his own name.

**Fiduciary Issue.** That part of the note issue of the Bank of England which is authorized against the Government Debt and Other Securities, as distinguished from the note issue against gold. The fiduciary issue is fixed at £200 millions.

**Force Majeure.** Some condition arising to prevent delivery, which no ordinary causes could foresee, thus making it impossible to supply the goods within the contract time. The most common occurrence is labour trouble; e.g., workmen may apply to the seller for an increase of wages which he does not see his way to grant, and a stoppage of production may ensue.

**Forwarding Agent.** One who is employed to collect and deliver goods on behalf of others.

**Freight.** The amount paid for the carriage of goods by sea. It is usually fixed by the charter party or the bill of lading.

**Gauger.** An officer of Customs of Inland Revenue, whose business it is to ascertain the contents of casks.

**Gilt-edged Securities.** Securities of the highest order which are considered to be free from risk.

**Gross Profit.** The difference between the cost price of goods to the trader and the price at which he sells them to the customer. It is the invariable custom for business men to base the percentages of gross profit upon the selling price of the goods and not upon the cost price.

**Indent.** An order received from agents or correspondents abroad.

**Interim Dividends.** A distribution on account made in advance of the final distribution of profits.

**Intermediary.** One who brings buyers and sellers, producers, and consumers together by acting as an agent through whose hands the goods can pass.

**Jerquer.** A Customs official whose duty it is to examine the ship's cargo to prevent goods from being imported without paying duty.

**Jobber.** Members of the Stock Exchange who deal in securities which they buy from or sell to the public through the medium of brokers.

**Lame Duck.** A member of the Stock Exchange who is unable to meet the claims made upon him at the date of settlement. He thereupon ceases to be a member.

**Lay Days.** The number of days allowed for loading and unloading ships as agreed upon between the owners and charterers.

**Lease.** The grant of the use of land or building by the landlord or lessor, to the tenant or lessee, for a certain term of years.

**Letter of Credit.** A document issued by a banker, authorizing the banker to whom it is addressed to honour the cheques of the person named to the extent of a certain amount, to charge the sum to the account of the grantor.

**Lien.** A legal claim on property belonging to one person but in possession of another as security for a debt.

**Lighterage.** The cost of the conveyance of goods in a lighter or barge.

**Lloyd's.** The institution so called from having its head-quarters in Lloyd's rooms. The members of the institution are engaged in the business of marine and other forms of insurances.

**Manifest.** A statement or declaration made concerning a cargo of a vessel for the satisfaction of the Custom House officers.

**Marked Cheques.** Cheques which have been marked by the banks upon which they are drawn, certifying that they are in order and certain of being paid when presented.

**Mate's Receipt.** A receipt given by the mate of a ship for goods which have been received on board.

**Memorandum of Association.** The document setting forth the objects for which a company is formed, signed by the original members of the company at the time of incorporation.

**Merchant.** One who buys and sells goods for profit. The term is usually confined to a wholesale dealer or to one who trades on an extensive scale with foreign countries.

**Mint.** The Government institution engaged in the coinage of money. It is situated on Tower Hill, London.

**Notary Public.** A public officer who attests or certifies deeds or other documents. His duties relate chiefly to the noting and protesting of commercial documents such as bills of exchange.

**Option.** The right to buy or sell a commodity at a price which has been previously fixed. A "Call" option is the right to purchase at a specified price, whereas a similar arrangement to sell is a "Put" option.

**Over-trading.** The locking up of so great a portion of the capital embarked in an undertaking that too little is left for effective use as a medium of exchange.

**Par.** The nominal or face value of a security. If the market price is higher than that originally paid, the security is said to be "above par," if the price be less, it is "below par," "At par" means that the nominal and market values are equal.

**Price Current.** A regularly published list of the market prices of goods.

**Qualified Acceptance.** A signification by the drawee of his qualified assent to the order of the drawer of a bill of exchange.

**Rebate.** A discount or allowance. The term is used by bankers to signify an allowance made by them to parties taking up bills of exchange before they are due.

**Respondentia.** A loan raised upon the cargo of a ship on the personal responsibility of the master.

**Renewal.** The extension of the time of payment of a bill of exchange by issuing a fresh bill.

**Retail Shopkeeper.** A person who supervises the conduct of a business engaged in the distribution of commodities direct to consumers. He purchases goods from importers, wholesalers, manufacturers, or producers, often from samples submitted by commercial travellers employed by such firms. He sells goods to consumers, and frequently has a warehouse on the shop premises wherein stocks are kept and from which purchases are dispatched.

**Retiring a Bill.** Honouring it, paying it when due.

**Ring.** A combination of capitalists formed for the purpose of raising the price of a certain commodity above its ordinary market value by withholding from circulation.

**Royalty.** The payment made to the owner of minerals for the right of working them. Also a percentage payment to an author, or composer, on the sale of his books, music, or other works.

**Secret Reserve.** A surplus, the existence of which is not revealed on the balance sheet.

**Shipbroker.** The person who transacts business between the owners of vessels and the merchants who send cargoes.

**Specie.** Coined metal as distinct from bullion.

**Stag.** A person who applies for an allotment of shares in a new issue simply with the intention of selling out at a profit, and not of taking up the shares.

**Syndicate.** A body of persons who combine to carry through some financial transaction or to undertake a common adventure.

**Tare.** An allowance made from the gross weight of goods for the box, bag, or other wrapping in which the goods are packed.

**Trade.** That branch of commerce concerned with the purchase and sale of goods.

**Trade Discount.** A special allowance made by manufacturers and wholesalers when dealing with retailers. It really constitutes the latter's gross profit and varies from 5 per cent to as much as 90 per cent.

**Treasury Bills.** Bills issued by the Treasury in return for sums of money lent to the Government by private individuals.

**Turnover.** The total net sales of a trader within a certain trading period.

**Ullage.** The difference between the full capacity and the actual contents of a cask.

**Underwriter.** A person engaged as agent in transacting marine insurance.

**Watering Stock.** The act of increasing the capital of a company by creating new stock without making any additional provisions for the payment of dividends thereon.

**Wharfage.** A charge made for landing goods on, or shipping them off, a wharf.

**Wholesale Trader.** One who buys goods and sells them to other traders.

**Winding Up.** The closing of the business of a Company by the settlement of all its accounts either voluntarily or by order of the Court. During this period the company is said to be "In liquidation."

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